

Tri-Cities Airport Authority

Tri-Cities Regional Airport, TN/VA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014



TRI-CITIES REGIONAL AIRPORT
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Tri-Cities Airport Authority

Blountville, Tennessee

Jointly Governed by
Bristol, TN
Bristol, VA
Johnson City, TN
Kingsport, TN
Sullivan County, TN
Washington County, TN



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014

Prepared by:
Accounting Department

TRI-CITIES AIRPORT AUTHORITY

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Introduction

- Vision and Mission
- Commissioners and Senior Staff
- Letter of Transmittal
- Certificate of Achievement
- Organizational Chart



TRI-CITIES REGIONAL AIRPORT
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Tri-Cities Airport Authority

Tri-Cities Regional Airport, TN/VA

Vision

To be a premier air transportation center
and a catalyst for economic growth

Mission

To support economic growth by providing the best
available facilities and service for passengers,
air cargo, corporate and general aviation



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TRI-CITIES AIRPORT AUTHORITY

AUTHORITY BOARD MEMBERS AND SENIOR STAFF

As of June 30, 2014

Authority Board Members

Mr. James "Jim" Rector, Chairman
Mr. Dan Mahoney, Vice Chairman
Mr. Joe L. Wilson, Secretary-Treasurer
Mr. Ken Maness
Mr. James "Moe" Brotherton
Mr. Bill Sorah
Mayor Dan Eldridge
Mayor Steve Godsey
Dr. Sam Humphreys
Mayor Dr. Ralph Van Brocklin
Mr. J. Parker Smith

Airport Senior Staff

Patrick W. Wilson, Executive Director
Larry G. Bailey, Interim Director of Finance
David Jones, Director of Operations
Melissa Thomas, Director of Marketing and Air Service Development
Kathy Yakley, Manager of Human Resources and Administrative Services
Mark Canty, Air Cargo and Trade Development Specialist



≈≈≈ Letter of Transmittal ≈≈≈

December 3, 2014

To the Members of the Tri-Cities Airport Authority:

This “Comprehensive Annual Financial Report” (CAFR) of the Tri-Cities Airport Authority for the year ended June 30, 2014 is hereby submitted. This report was prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by Blackburn, Childers & Steagall, PLC.

The Accounting Department of the Tri-Cities Airport Authority has prepared this report and assumes full responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the proprietary fund of the Tri-Cities Airport Authority.

The CAFR was prepared using the guidelines set forth by the Government Finance Officers Association of the United States and Canada (GFOA) to be eligible for application of the Certificate of Achievement Award. The guidelines require management to provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a “Management Discussion and Analysis” (MD&A). This “Letter of Transmittal” should be read in conjunction with the MD&A that is located in the Financial Section.

REPORTING ENTITY

On November 28, 2012 the following notification to Mr. Phillip Braden, Manager Federal Aviation Administration, Southern Region was provided by Patrick Wilson the Executive Director of the Tri-Cities Airport. “Please accept this letter as notification that, effective September 25, 2012, the Tri-Cities Airport Authority (“Authority”) came into legal existence pursuant to the laws permitting the creation of and defining the powers of regional airport authorities in the State of Tennessee. (See, Tennessee Code Annotated § 42-3-104 through § 42-3-119).

REPORTING ENTITY (CONTINUED)

The Authority is a public body, corporate and politic, and has a separate legal existence from the former Owners of the Tri-Cities Regional Airport, TN/VA ("Airport"), same being the City of Bristol, Virginia, the City of Bristol, Tennessee, the City of Johnson City, Tennessee, the City of Kingsport, Tennessee, Sullivan County, Tennessee, and Washington County, Tennessee ("Owners"). The Tri-Cities Airport Commission, which operated and managed the Airport for the Owners, has been transitioned to the Authority, which is governed by the Board of Commissioners of the Authority.

Currently, the Authority, the Owners, and the Tri-Cities Airport Commission are engaged in a transition period. All real and personal property, other assets, contracts, agreements, leases, grant assurances, and most other legal obligations of the Owners and the Tri-Cities Airport Commission related in any manner to the Airport are being assumed, adopted and ratified, unconditionally, by the Authority. The Authority is also assuming and adopting all rules, regulations, and procedures which are in place to operate the Airport.

The Tri-Cities Airport Authority is jointly governed by six cities and counties. The Airport Authority is charged with the responsibility of directing the development, operation, maintenance, control and administration of the Tri-Cities Regional Airport, TN/VA.

The Airport Authority is composed of a twelve member board each with one vote. Each entity is entitled to appoint a specified number of Board Members as follows:

<u>Governmental Entity</u>	<u>Representation</u>
Washington County, Tennessee	3 Board Members
City of Johnson City, Tennessee	3 Board Members
Sullivan County, Tennessee	2 Board Members
City of Kingsport, Tennessee	2 Board Members
City of Bristol, Tennessee	1 Board Member
City of Bristol, Virginia	1 Board Member

The officers of the Authority consist of a Chairman, Vice-Chairman, a Secretary-Treasurer, and an Assistant Secretary-Treasurer. The Authority currently has five standing committees. These committees are advisory in nature but are authorized to make decisions that are binding on the full Authority with prior approval by the Authority. The current committees are: Executive, Administration/Operations, Marketing, Airfield Development, and the Air Cargo and Trade Development.

MANAGEMENT

The Airport Authority hires an Executive Director to head up the management of the Airport. The Executive Director oversees a staff of 43 full-time employees, as of June 30, 2014. The staff is responsible for the day-to-day administrative, financial, operational and personnel matters relating to the Tri-Cities Regional Airport TN/VA.

There are eleven departments overseeing the activities at the Tri-Cities Regional Airport. The executive Director, Patrick Wilson, heads the administrative department and oversees the operations, marketing, finance and air cargo and trade development departments.

MANAGEMENT (CONTINUED)

David Jones, Director of Operations, oversees the access control, janitorial, maintenance, public safety and engineering services departments. The operations department also ensures that the Airport complies with FAA standards and regulations. The operations department is responsible for preparing state and federal grant applications and coordinates the efforts of engineering, consultants, and others to complete the design and construction of all capital improvement projects at the Airport.

Larry Bailey, Interim Director of Finance, oversees all accounting functions, including the Airport's budgets, audits, payables, receivables, payroll and all financial reporting. All financial obligations and/or indebtedness are handled in the finance department.

Melissa Thomas, Director of Marketing and Air Service Development, oversees the marketing department, handling advertising, public and airline relations and marketing the Airport to passengers and prospective airlines. She also works to market TRI Aviation Park, the Airport's new business park. She also oversees the Airport Services staff, supervised by Karen Weaver, who assist passengers in the terminal, handle phone inquiries and conduct tours.

Kathy Yakley, Manager of Human Resources and Administrative Services, is responsible for employee relations and benefits, retirement programs and property administration.

Mark Canty, Air Cargo and Trade Development Specialist, is responsible for promoting air cargo, administration of Foreign Trade Zone No. 204, development and maintenance of programs and initiatives designed to foster international trade, and marketing and promotion of the U.S. Customs station within the Tri-Cities Region. He also works to market TRI Aviation Park.

THE AIRPORT TODAY

Tri-Cities Regional Airport is centrally located between the Tennessee cities of Bristol, Kingsport, Johnson City, and Bristol, Virginia and serves Northeast Tennessee, Southwest Virginia and parts of North Carolina and Kentucky. The Tri-Cities region is strategically located within a day's drive of more than 70 percent of the nation's population.

The region offers a wide range of market benefits including a 60-mile trade population of approximately 1 million, a large manufacturing sector, exceptional interstate highway network and 27 regional industrial parks.

The Airport's property covers approximately 1,250 acres of land, 89 acres in easements, and a 113,532-sf passenger terminal building with ample short-term and long-term parking, passenger services, national rental car brands, restaurant/bar/gift shop, business center and free wireless internet.

A 13,000-sf Air Cargo Logistics Center houses US Customs and Border Protection Port #2027 and Foreign-Trade-Zone #204. The site includes a 485 ft. x 360 ft. cargo ramp, 75-ft-wide taxiway system and speculative building space. TRI Aviation Park 1, a 35-acre development area with direct airfield access lies adjacent to the Logistics Center.

THE AIRPORT TODAY (CONTINUED)

TRI Aviation Parks 1 and 2 are key to the continued development of the south side of the airfield. TRI Aviation Park 1 was recently certified by the State of Tennessee as part of the Select Tennessee program through the Tennessee Department of Economic and Community Development. This certification provides assurance to potential aviation-related businesses and developers that the site has no significant environmental issues, has all utilities in place, and is ready for building.

TRI Aviation Park 2 comprises approximately 127 acres that is now accessible as the result of relocating Hamilton Road, which had to be done to accommodate the Taxiway R extension. TRI Aviation Park 2 provides extensive airfield access as well as parcels for prospective companies requiring more acreage.

Port #2027, a federally staffed, full-service customs station, allows for passengers and imported goods to clear Customs in the Tri-Cities and avoid congestion and delays common at larger Ports of Entry.

A fixed based operator (FBO) is housed on Airport property to accommodate private and corporate aircraft operations. The FBO serves as the point-of-entry for customers who are not using commercial airline service and provides aircraft storage, fuel and maintenance services.

ECONOMIC CONDITIONS AND OUTLOOK

Airport

As the physical link between passengers and the air transportation network, the Airport Authority strives to provide air service to meet passenger demand. Historically, Tri-Cities' passenger base has been business oriented, and that trend is expected to continue. However, with the addition of low fare service on large jet equipment to Florida destinations, the percentage of leisure traffic has grown.

TRI offers three scheduled airlines serving passengers through four connecting hubs and leisure destinations. Delta Air Lines provides service to Atlanta, US Airways Express serves Charlotte, and Allegiant offers service to Orlando and St. Petersburg/Clearwater.

Passengers traveling on business account for approximately 55-60 percent of TRI's customer base. While that percentage has varied through the years depending on fare levels, TRI's air service and fare structure continue to be geared toward business travel, providing the stability to weather economic downturns. However, with a business market and only two network carriers, TRI is subject to higher fares and potentially vulnerable to airline bankruptcies and mergers.

During the 2014 fiscal year, passenger aircraft load factors increased 0.4 percent over the previous year which reflected a 4.2 percent increase over FY2012. The number of available aircraft seats decreased 0.9 percent and passenger traffic decreased 0.5 percent below FY 2013. In the months of January and February 2014 inclement weather resulted in a relatively large number of flight cancellations at the Atlanta, GA and Charlotte, NC hubs.

ECONOMIC CONDITIONS AND OUTLOOK (CONTINUED)

Airport (Continued)

The aviation industry is particularly challenging for small airports due to mergers, high fuel costs, and the move away from expensive regional jet aircraft toward larger jets with fewer frequencies. While the larger jets are comfortable and popular with passengers, the reduced number of flights can impact customer convenience. The number of available seats at TRI remains relatively flat, but passengers have fewer flights from which to choose. The larger aircraft can accommodate large groups traveling together, which is a benefit to TRI and provides first class cabin service.

Over the past five years, the airline industry has been subject to several airline bankruptcies and mergers, resulting in the reduction of large network carriers, connecting hubs and competition to put downward pressure on fares. With recent approval of the US Airways/American Airlines merger, only three network carriers will remain: Delta Airlines (merged with Northwest Airlines), United Airlines (merged with Continental) and American Airlines (merged with US Airways). Since TRI currently has only Allegiant, Delta and US Airways service, it is not anticipated that the US Airways/American merger will negatively impact TRI. The Airport will continue to work toward increasing air service options for TRI travelers.

National and Local Economy

The Tri-Cities Airport Authority uses quarterly data produced by the East Tennessee State University Bureau of Business and Economic Research to monitor national and regional economic conditions. The following information was obtained from reports released by this organization.

Retail performance was mixed in the three cities during the second quarter of 2014. Retail sales increased 3.0% in Kingsport to \$363 million while Johnson City and Bristol reflected decreases of 0.9% to \$448 million and 1.3% to \$240 million, respectively. Over the April to June quarter, inflation adjusted retail sales rose 0.8% in the metro area compared to a 2.2% increase in Tennessee and a 0.9% increase in the United States for the same period.

Employment in the metro area declined again in the second quarter of 2014, continuing a trend that began in 2012. Compared to the same period in 2013, regional job levels were lower by 0.4% to 222,604. Over the April to June period, the jobless rate for the Tri-Cities consolidated Statistical Area (CSA) was 6.3%, compared to 7.7% a year earlier which decrease is a result of jobless workers departing the labor force rather than increased employment.

Generally, national and local economic improvements support passenger increases in air travel. Thus, the mixed performance of the local economy has not provided the support needed for increasing passenger numbers.

CAPITAL PLANNING

Through the Airport's master planning process, the Authority lays out a Capital Improvement Program on a rolling five-year basis. Most of these projects are funded from federal and state grant funds generated from federal and state aviation user fees. A Capital Improvement Program is prepared annually for a five-year period outlining project descriptions and funding sources. Priorities are set in conjunction with the Airport's Master Plan. The priorities for FY 2014 were as follows:

- 1) Safety and security for all users of the Airport;
- 2) Projects deemed to meet air carrier passenger needs and demands;
- 3) Projects deemed to meet demands of general aviation, corporate, and cargo users;
- 4) Implement projects that will generate new revenue sources; and,
- 5) Implement projects that will maximize all sources of funding availability.

FINANCIAL INFORMATION

Internal Controls

Management of the Tri-Cities Airport Authority is responsible for establishing and maintaining an internal control structure designed to ensure that: (i.) the assets of Tri-Cities Airport Authority are protected from loss, theft or misuse; (ii.) to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles; and, (iii.) that federal financial assistance programs are managed in compliance with applicable laws and regulations.

The Airport Authority applied the concept of reasonable assurance in establishing internal controls. These assurances recognize that: (i.) the cost of a control should not exceed the benefits likely to be derived; and (ii.) the valuation of costs and benefits requires estimates and judgments by management.

As part of the Tri-Cities Airport Authority's single audit, tests were made of the Airport Authority's internal control structure and of its compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although an opinion on the Airport Authority's internal control system or its compliance with laws and regulations was not given, the audit for the year-ended June 30, 2014 disclosed no material internal control weaknesses or material violations of laws and regulations.

Operating Budget

An annual operating budget is prepared and approved by the Tri-Cities Airport Authority. All appropriations for operating expenditures lapse at the end of the fiscal year and must be reappropriated for the following year. A Capital Projects Budget is approved annually with the appropriated funds remaining intact until completion of the project.

The Tri-Cities Airport Authority continues to meet its responsibility for sound financial management. The Airport Authority is self-supporting through user fees of the Airport and has not received local tax dollars since 1967.

CASH MANAGEMENT POLICIES

The Investment Policy of the Airport Authority sets the criteria for surplus funds. The Airport Authority consolidates cash balances from all funds to maximize investment earnings. The primary objectives of investment activities are safety, liquidity, and yield.

The Tri-Cities Airport Authority is authorized to make direct investments in bonds, notes or treasury bills of the U. S. Government and obligations guaranteed by the U. S. Government or any of its agencies. These investments may not have maturity greater than two years, except as set out in Tennessee state law. Investments may also be made in the Tennessee State Pooled Investment Fund and in repurchase agreements with state approval.

RISK MANAGEMENT

The Tri-Cities Airport Authority is fully insured and carries insurance coverage with commercial insurance carriers in amounts sufficient to meet the Airport Authority's reasonable exposure. All tenants and lessees are required to carry specified amounts of insurance coverage, naming the Airport Authority as an additional insured. All contractors engaged in construction projects are required to meet minimum requirements as specified in the bid documents.

OTHER INFORMATION

Independent Audit

As required by state statutes, the Tri-Cities Airport Authority requires an annual independent audit by a Certified Public Accountant. The selection is administered by the Administration/Operations Committee with final approval by the full Authority. The firm of Blackburn, Childers & Steagall, PLC was selected to perform the independent audit for the year ending June 30, 2014. The audit is also used to meet the requirements and all revisions of the federal Single Audit Act of 1984, and the related U. S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards were used by the auditors in conducting their audit.

The auditor's report on the financial statements is included in the Financial Section of this report. The independent auditor's report on internal controls and compliance with applicable laws and regulations are located in the Internal Control and Compliance Section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tri-Cities Airport Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the 15th consecutive year that the airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

OTHER INFORMATION (CONTINUED)

Awards (Continued)

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

We would like to take this opportunity to thank the Airport Authority for their leadership and support in planning and conducting the financial operations of the Airport. We would also like to recognize the efforts of the senior staff, David Jones, Melissa Thomas, Kathy Yakley, and Mark Canty for their contributions to this financial report. A special thanks is given to the accounting department staff, Janice Lynch and Tim Cartwright for their hard work and dedication.

Respectfully submitted,



Patrick W. Wilson
Executive Director

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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Tri-Cities Airport Commission
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

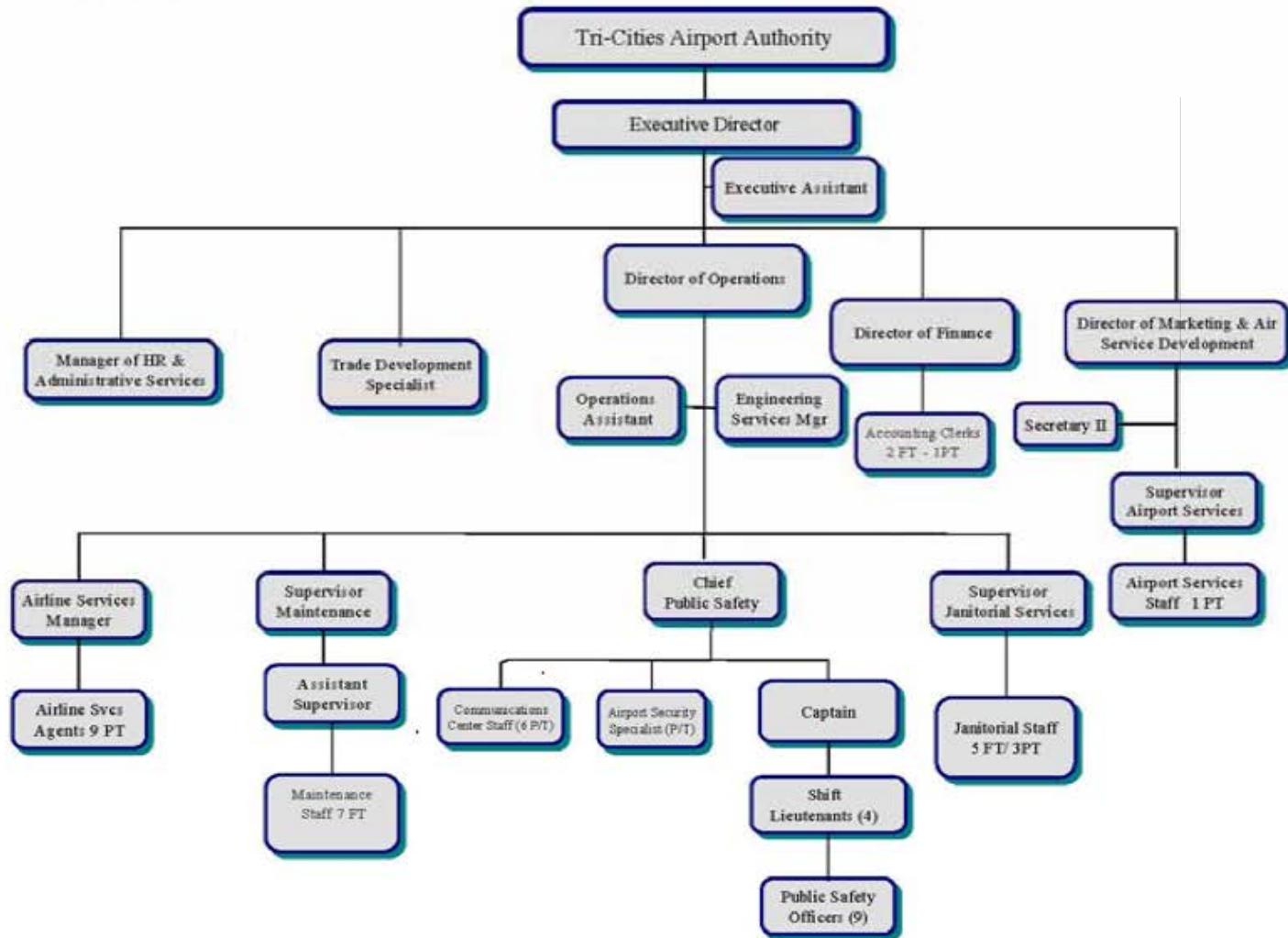
A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

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TRI-CITIES AIRPORT AUTHORITY ORGANIZATION CHART



July 2013

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Financial

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplemental Schedule
- Supplemental Schedules



TRI-CITIES REGIONAL AIRPORT
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Tri-Cities Airport Authority
Blountville, Tennessee

Basic Financial Statements

And

Supplemental Information

For the Fiscal Year Ended June 30, 2014



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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners
of the Tri-Cities Airport Authority
P.O. Box 1055
Blountville, Tennessee 37617

Report on the Financial Statements

We have audited the accompanying financial statements of the Tri-Cities Airport Authority, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Tri-Cities Airport Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Cities Airport Authority as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 26 - 35 and page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tri-Cities Airport Authority's basic financial statements. The introductory section, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as included in the supplemental schedules, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of passenger facility charges, as included in the supplemental schedules, is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the basic financial statements.


To the Honorable Commissioners
of the Tri-Cities Airport Authority
Independent Auditors' Report

The schedule of expenditures of federal awards, the schedule of expenditures of passenger facility charges, and the other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, the schedule of expenditures of passenger facility charges, and the other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014 on our consideration of the Tri-Cities Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-Cities Airport Authority's internal control over financial reporting and compliance.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following Management's Discussion and Analysis (MD&A) of the Tri-Cities Regional Airport, TN/VA's activities and financial performance provides an overview of the Tri-Cities Airport Authority's basic financial statements for the fiscal year ended June 30, 2014. The Tri-Cities Airport Authority is the governing entity operating the Tri-Cities Regional Airport, TN/VA as of June 30, 2014. This MD&A should be read in conjunction with the "Letter of Transmittal" included in the Introductory Section and the Authority's financial statements following in this section.

Overview of the Financial Statements

The Financial Section of this annual report consists of four parts: (i.) Introductory; (ii.) Financial; (iii.) Statistical Schedules; and (iv.) Internal Control and Compliance.

The Tri-Cities Airport Authority is a special-purpose government with only business-type activities. The Basic Financial Statements include proprietary fund financial statements, which offer short-term and long-term financial information about the activities of the Tri-Cities Airport Authority.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and other schedules that further explain and support the information in the basic financial statements.

Required financial statements include the: (i.) Statement of Net Position; (ii.) Statement of Revenues, Expenses and Changes in Net Position; and, (iii.) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. All assets and liabilities, both financial and capital, and short-term and long-term are recorded. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of timing of related cash flows. The accompanying notes to the financial statements enhance the reader's understanding of the Airport Authority's accounting policies.

Airport Activity Highlights

Airport Passenger Activity during FY 2014 decreased by 1.2 percent compared to FY 2013 as the economy was relatively flat and, due to inclement weather, a large number of flight cancellations occurred in the months of January and February 2014 due to shutdown of hub airports Atlanta, GA and Charlotte, NC which also resulted in a decline in total aircraft operations by 2.2 percent. Aircraft landed weights and airline seats were down slightly by 0.1% and 0.9%, respectively. Air Cargo activity increased 25.9% due to increased activity by air cargo vendors.

The following table shows the increases and decreases from the previous fiscal year.

<u>Activity</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>% of Change</u>
Passengers	404,334	409,056	-1.2%
Aircraft Operations	46,482	47,551	-2.2%
Aircraft Landed Weights (lbs.)	249,781	250,175	-0.1%
Seating Capacity	535,706	540,502	-0.9%
Mail	649	45	1342.2%
Air Freight	74,147	58,905	25.9%

The following airlines are serving Tri-Cities Regional Airport, TN/VA:

Delta Connection offers the majority of flights and seats at TRI. Delta provides an average of eight flights per day to Atlanta aboard 50 seat Canadair regional jets as well as B-717's and A-319's with up to 126 seat capacity.

US Airways Express has an average of eight daily round-trip flights to Charlotte aboard 50-passenger Embraer and Canadair regional jets and the de Havilland Dash 8 turboprop seating 50 passengers.

Allegiant Air provides low fare service to Orlando and St. Petersburg/Clearwater aboard 150 plus seat MD-83 and A-320 jets.

Financial Position

The overall financial position of the Airport Authority improved with a 22.1% increase in total net position. This increase was primarily due to major capital contributions due to the continuation and substantial completion of large projects including the rehabilitation of the main runway pavement and construction of taxiway extension and road relocation.

Operating Income before depreciation and amortization increased 16.0% from 2013 largely despite an increase in operating expenses of 2.3% which was more than offset by an increase in operating revenues of 3.3%. Operating revenue increases were due to increased activity in the parking facilities and from rental car activities.

Capital contributions received from federal and state grants were up by \$10,288 million from last fiscal year.

Summary of Changes in Net Position

	Fiscal Year Ended June 30,		
	2014	2013	2012
Operating Revenues	\$ 6,281,012	6,080,339	6,160,383
Operating Expenses	5,804,594	5,669,838	5,422,576
Operating Income Before			
Depreciation and Amortization	476,418	410,501	737,807
Less: Depreciation and Amortization	3,643,867	3,510,733	3,332,671
Operating Loss	(3,167,449)	(3,100,232)	(2,594,864)
Non-Operating Revenues (Expenses)	967,567	917,552	1,253,169
Loss before Capital Contributions	(2,199,882)	(2,182,680)	(1,341,695)
Capital Contributions	18,148,327	7,859,918	4,821,258
Change in Net Position	\$ 15,948,445	5,677,238	3,479,563

Operating and Non-Operating Revenue Highlights

Operating revenues are generated from the tenants and/or “users” of the Airport through airfield charges, terminal rents, concession revenue, parking fees, and other sources.

Non-operating revenue is made up of unrestricted and restricted funds. Unrestricted revenue comes from interest income, investment gains, and other sources not resulting from operations. The restricted revenue is generated for a defined purpose and cannot be used to fund operating expenses. The current restricted revenues are Passenger Facility Charges and Customer Facility Charges.

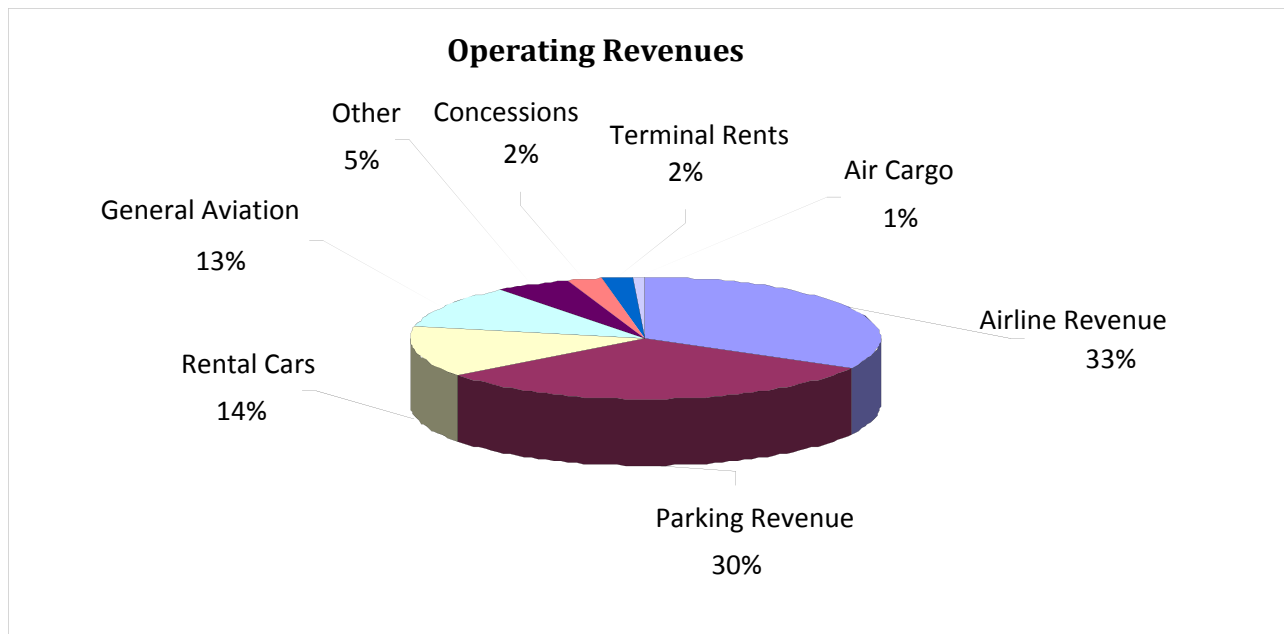
The Airport Authority develops an operating budget and capital improvement budget each fiscal year. Operating revenues are generated to first fund operating expenses. Any net operating revenues are then transferred to the reserve accounts to fund the Airport’s portion of capital projects. Any net revenues after capital projects are placed in the operating reserves.

Operating and Non-Operating Revenue Highlights (Continued)

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2014, 2013 and 2012:

	Fiscal Year Ended June 30,		
	2014	2013	2012
Operating Revenues			
Airline Revenue	\$ 2,082,907	2,035,422	2,004,798
General Aviation	821,254	796,602	728,727
Air Cargo	75,433	66,459	61,615
Parking	1,895,843	1,868,305	1,945,375
Rental Cars	895,804	822,556	873,378
Concessions	111,451	105,798	108,222
Terminal Rents	106,231	111,559	126,718
Other	292,089	273,638	311,550
Total Operating Revenues	6,281,012	6,080,339	6,160,383
Non-Operating Revenues			
Interest Income	21,284	21,939	17,660
Gain on Sale of Land to State of TN	-	-	241,712
Other Gains on Sale of Assets	-	-	29,485
Proceeds on Sale of Assets	8,697	9,745	-
Passenger Facility Charges	883,130	771,260	884,120
Customer Facility Charges	341,898	381,681	379,825
Total Non-Operating Revenues	1,255,009	1,184,625	1,552,802
TOTAL REVENUES	\$ 7,536,021	7,264,964	7,713,185
Capital Contributions			
Federal Grant Revenue	\$ 17,022,388	6,831,868	1,730,504
State Grant Revenue	1,101,654	1,028,050	3,090,754
Other Capital Contributions	24,285	-	-
Total Capital Contributions	\$ 18,148,327	7,859,918	4,821,258

The following chart shows the sources of operating revenue and percentage of operating revenues for the fiscal year ended June 30, 2014.



Operating Revenues increased by \$200,673 or 3.3% from \$6,080,339 for the 2013FY to \$6,281,012 in 2014FY.

✈️ Airline revenue increased by 2.3% or \$47,485 on revenues over the 2013 FY.

✈️ General Aviation revenue was up by \$24,652 or 3.1% over the 2013 FY.

✈️ Parking revenues increased from the 2013FY by 1.5% or \$27,538.

✈️ Rental Car increased by \$73,248 or 8.9%.

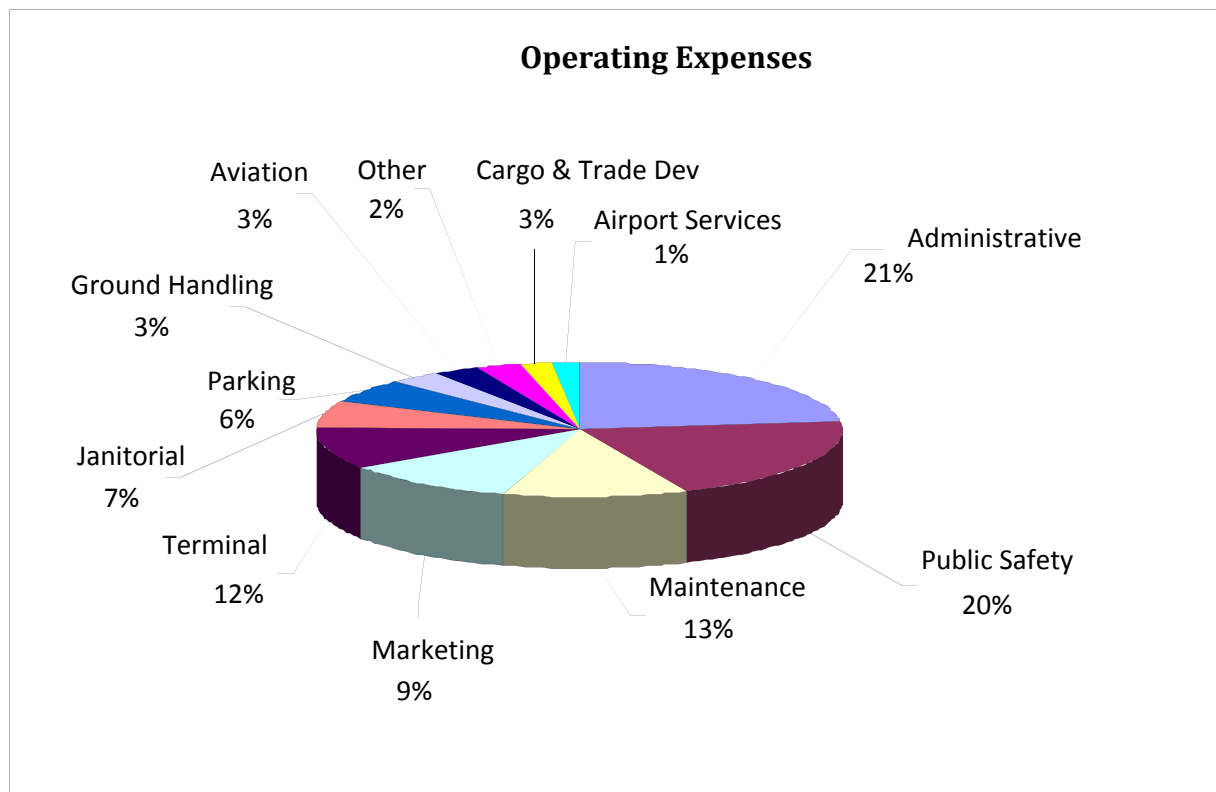
✈️ Other Revenues increased by \$18,451 or 6.7% from the 2013FY.

Operating Expenses

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2014 and 2013:


Operating Expenses	2014 Amount	2013 Amount	Change from 2013	Percent Change from 2013
Administrative	\$ 1,236,986	1,343,586	(106,600)	-7.9%
Public Safety	1,178,026	1,130,360	47,666	4.2%
Maintenance	734,113	712,085	22,028	3.1%
Terminal	675,326	628,145	47,181	7.5%
Marketing	515,672	509,182	6,490	1.3%
Janitorial	398,055	374,596	23,459	6.2%
Parking	337,372	306,934	30,438	9.9%
Ground Handling	181,772	176,418	5,354	3.0%
Cargo and Trade Dev.	149,686	136,397	13,289	9.7%
Other	133,077	142,065	(8,988)	-6.3%
Aviation	189,219	142,937	46,282	32.4%
Airport Services	75,290	67,133	8,157	12.1%
Total Operating Expenses	\$ 5,804,594	5,669,838	134,756	2.4%


The following pie chart shows the Airport Authority's expenses by category and the percentage of operating expenses for the fiscal year ended June 30, 2014.




Operating Expenses Highlights

Operating Expenses were up by \$134,756 or 2.4% as compared to the previous year. Variation analysis of the Operating Expenses revealed:

 Aviation Area expenses increased \$46,282 or 32.4% due to increased maintenance expenses in the areas of Lighting and Electrical maintenance and Runway, Taxiway and Field maintenance which repairs, in part, were a result of equipment upgrades and repairs needed due to the substantial completion of the main runway pavement and construction project and the taxiway extension and road relocation project.

 Terminal Area expenses in FY 2014 increased \$47,181 or 7.5% over FY 2013 levels as a result of repairs needed to the Terminal HVAC chillers.

 Public Safety Area expenses increased by \$47,666 or 4.2% due to increased costs for insurance, fuel and equipment maintenance.

Financial Position Summary

The Statement of Net Position presents the financial position of the Airport at the end of the fiscal year. The statement includes all assets, deferred outflows and liabilities of the Airport. Net position is the difference between the total assets, deferred outflows of resources, and total liabilities.

A condensed summary of the Airport Authority's total net position for the fiscal years ended June 30:

	Fiscal Year Ended June 30,		
	2014	2013	2012
Current Assets	\$ 5,439,965	5,183,935	4,356,522
Capital Assets (net)	85,641,273	70,336,327	65,977,059
Restricted Noncurrent Assets	2,493,328	3,255,291	2,860,121
Total Assets	93,574,566	78,775,553	73,193,702
Deferred Outflows of Resources	-	15,317	-
Current Liabilities	2,782,041	3,130,584	2,316,146
Noncurrent Liabilities	2,727,843	3,544,049	4,374,502
Total Liabilities	5,509,884	6,674,633	6,690,648
Net Investment in Capital Assets	81,727,565	65,756,371	61,201,867
Restricted	1,107,755	1,166,024	1,110,583
Unrestricted	5,229,362	5,193,842	4,190,604
Total Net Position	\$ 88,064,682	72,116,237	66,503,054

Airline Rates and Charges

The Airport Authority establishes airline rates and charges based on an annual review of projected airline activity and associated operating expenses. The Authority's rate setting philosophy incorporates a terminal rental rate calculated in a compensatory manner, in which the tenants pay only for their share of the facility occupied and used. The landing fee is based on an airfield residual cost center approach wherein the passenger and cargo carriers pay the net costs of the airfield, after receiving credit for airfield-related general aviation revenues.

The Authority evaluates Rates and Charges on an annual basis. On June 26, 2013, the Authority established the following rates and charges to be in effect for the fiscal year beginning July 1, 2013 and ending June 30, 2014.

Signatory Airline Rates and Charges (FY 2014)

Terminal Square Foot Rate per year	\$33.92
Landing Fee (per 1,000 lbs MGLW)	\$ 2.25
Apron Fee, per Turn	\$ 10.77
Passenger Loading Bridge Per Use	\$ 15.00
Public Safety Reimbursement	50% of Public Safety Budget

Capital Acquisitions and Construction Activities

During fiscal year 2014, several capital improvement projects were started and completed. Listed below are some of the major projects.

Completed Projects

In FY 2014 the Tri-Cities Regional Airport Authority achieved substantial completion of two large projects: the Runway 5/23 Rehabilitation project and the Taxiway R Extension and Hamilton Road project.

This Runway 5/23 Rehabilitation project included milling the asphalt surface and the repaving of the entire primary runway surface, pavement markings and grooving the new asphalt surface for drainage. The runway electrical improvements included the installation of new LED lights for the runway centerline and touch down zone lights, new runway edge lights, conduits and electrical regulator improvements. The project also included the installation of storm sewer under drains, runway asphalt shoulders, conduit duct bank installed to accommodate future airfield electrical needs and paving taxiway intersections as need for proper drainage and safety.

The Taxiway R Extension and Hamilton Road project involved relocating a portion of Hamilton Road to accommodate the extension of Taxiway R creating a full parallel taxiway on the south side of the primary Runway 5/23. The road relocation work included clearing and grubbing, grading, asphalt paving, storm sewer and utility installation. The Taxiway R Extension project, included grading, storm sewer installation, asphalt paving, taxiway edge lights, and pavement markings. The completion of the Taxiway R extension project provides the primary Runway 5/23 with a full parallel taxiway on the south/east side of the runway and airfield. This new taxiway extension will allow aircraft utilizing the Air Cargo Building and corporate hangar facilities with safe and efficient access. The new section of Taxiway R will also provide airfield access to the future Aviation Park II development area.

In addition to the two large projects above the Airport also relocated the current communications center personnel and operations to the lower level of the terminal building. The project included relocating the access control equipment and adding a new emergency operations center. A second part of the project included installation of a security fence with access controls along the airport operations area between the airfield and the Eastman operations hangar.

Current Projects

The Airport designed and bid two separate projects to begin in late fall 2014. The projects include improving the terminal access road and passenger parking lot. The access road project includes re-aligning the roadway for safety and efficiency, new way finding signage, removal and/or replacement of the concrete sidewalks, storm sewer and utility upgrades, asphalt milling and/or re-paving, pavement markings and electrical lighting improvements. The second project includes grading the short term parking lot, reworking the long term and short term passenger parking lot entrances, installing new revenue control equipment, adding credit card revenue equipment at the exit plaza, installing landscaping and a new cell phone lot. Both projects will improve passenger safety and convenience during both arrival and departure operations. In addition the airport will begin another project in FY 2015 to add a second security checkpoint lane in the terminal building. The new lane will provide TSA passenger screening with a second lane during peak demand periods, which will minimize any airline delays. The Airport also started the fourth phase of terminal building improvements, which includes installing HVAC, painting the terminal building exterior and the concourse interior, upgrading both the rental car and airline ticket counter areas and installing a new lobby restroom and upgrading the remaining terminal and concourse area restrooms. The terminal building improvements project will provide passengers with safer and efficient terminal facilities.

Debt Administration

The Tri-Cities Airport Authority has operated as a joint venture between four cities and two counties and has not had the Authority to borrow funds. In July of 1995, one of the owners of the Airport, Sullivan County, Tennessee, issued \$7 million in airport revenue and tax bonds, series 1995. These funds were to be used to fund several capital projects. These bonds are to be paid first from passenger facility charges (currently, \$4.50 fee per enplaned passenger), second from all other revenues and reserves of the Airport, and third from the Owners of the Airport. The funds were used for terminal improvements, the safety area expansion, and site preparation for the Southside development.

In August 2003, Sullivan County, Tennessee, on behalf of the Airport Authority, entered into a \$5 million Airport Revenue and Tax Bonds (Taxable) Series 2003. The average coupon rate is 5.54 percent with annual debt service of approximately \$432 thousand dollars. The bonds original maturity was twenty years. The outstanding debt as of June 30, 2013 was \$4,350,000. On January 28, 2014 Sullivan County, Tennessee issued \$2,975,000 Airport Revenue and Tax Refunding (Taxable) Bonds, Series 2014 for the purpose of providing funds to refinance, in advance of maturity, the Authority's outstanding Airport Revenue and Tax Bonds, Series 2003. The Series 2014 Bonds are payable primarily from and secured by a pledge and assignment of PFC and operating revenues from the Authority. The bonds will mature in 19 years. The outstanding debt as of June 30, 2014 was \$3,003,373.

In the notes to the financial statements, Note 9 – Long-Term Debt, describes the bonds in more detail and reflects a summary of the repayment structure.

Passenger Facility Charge (PFC)

The Tri-Cities Airport Authority received approval from the FAA to implement a Passenger Facility Charge (PFC) for \$3.00 per enplaned passenger beginning February 1997 for a total of \$8.5 million. The PFC is used to improve airport facilities. In August 1999, the PFC was amended to reduce the first portion to \$5.6 million in collections and to add two additional projects requiring collections of \$5.8 million. In August 2007 the PFC was increased to \$4.50, with two additional projects totaling \$668,500 and a total combined Authority of PFC collections of \$11.19 million.

Customer Facility Charges (CFC)

A Customer Facility Charge (CFC) is a fee charged on each rental car contract that must be used to pay rental car bond debt service and to maintain rental car facilities. A \$6 per contract fee was enacted on November 1, 2002. Due to a decrease in rental contract activity, this rate was increased to \$7 per contract in January 2005 and then to \$9 in August 2010. As of June 30, 2014, the airport's rental car concessionaires had collected \$3.715 million in Customer Facility Charges.

Economic Factors

According to the latest report by the ETSU Bureau of Business & Economic Research, employment in the metro area declined again in the second quarter. Compared to the same period in 2013, regional job levels were lower by 0.4%, while unemployment rose 19.5% as a result of a decline in the labor force. Over the April to June period, the jobless rate for the Tri-Cities Consolidated statistical Area (CSA) was 6.3% compared to 7.7% a year earlier.

Acknowledgments

This financial report is designed to provide a general overview of the Tri-Cities Airport Authority's finances for all interested parties. Questions concerning this report or requests for additional information should be directed to Director of Finance, Tri-Cities Airport Authority, 2525 Highway 75, Suite 301, Blountville, TN 37617, telephone (423) 325-6007.

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Basic Financial Statements



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TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

CURRENT ASSETS

Cash on Hand	\$ 3,351
Cash in Bank - Checking	2,085,947
Restricted Assets	
Cash in Bank - Passenger Facility Charges	194,588
Cash in Bank - Customer Facility Charges	260,052
PFC Receivable	129,664
Cash in Bank - Escrow	725,899
Accounts Receivable - Operations (Net of Allowance, \$61,630)	589,750
Grants Receivable	1,411,901
Prepaid Expenses	38,813
	<hr/>
Total Current Assets	5,439,965

NONCURRENT ASSETS

Capital Assets	
Land	15,294,926
Construction in Progress	28,103,362
Runways and Roads	68,179,219
Parking Lot	4,936,487
Terminal Building	17,857,087
Other Buildings	10,438,463
Equipment and Vehicles	10,134,080
Master Plans	1,320,045
Less: Accumulated Depreciation	(70,622,396)
Net Capital Assets	<hr/> 85,641,273
Restricted Assets	
Cash on Deposit with other Governmental Entities - Debt Service Reserve	383,010
Certificates of Deposit - Passenger Facility Charges	472,365
Certificates of Deposit - Customer Facility Charges	51,086
Certificates of Deposit	1,556,974
Utility Deposits	2,318
Equipment Deposits	27,575
	<hr/>
Total Noncurrent Assets	88,134,601

TOTAL ASSETS	<hr/> 93,574,566
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(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2014

LIABILITIES

CURRENT LIABILITIES

Accounts Payable - Operations	187,922
Accounts Payable - Construction	1,455,273
Retainage Payable	566,802
Accrued Expenses	24,679
Accrued Interest	25,747
Accrued Wages	59,552
Accrued Compensated Absences	172,066
Bonds Payable	<u>290,000</u>

Total Current Liabilities	<u>2,782,041</u>
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NONCURRENT LIABILITIES

Bonds Payable	2,713,373
Deposits from Leasees	7,250
Accrued Compensated Absences	<u>7,220</u>

Total Noncurrent Liabilities	<u>2,727,843</u>
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TOTAL LIABILITIES	<u>5,509,884</u>
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NET POSITION

Net Investment in Capital Assets	81,727,565
Restricted - Passenger Facility Charge	796,617
Restricted - Customer Facility Charge	311,138
Unrestricted	<u>5,229,362</u>

TOTAL NET POSITION	<u><u>\$ 88,064,682</u></u>
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The accompanying notes are an integral part of these basic financial statements.

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES	
Airline Revenue	
Landing Fees	\$ 547,043
Rents	1,535,864
Total Airline Revenue	<u>2,082,907</u>
Non-Airline Revenues	
General Aviation	821,254
Air Cargo	75,433
Parking Revenue	1,895,843
Rental Car Revenue	895,804
Terminal Concessions	111,451
Terminal Space Rents	106,231
Other Revenues	292,089
Total Non-Airline Revenues	<u>4,198,105</u>
Total Operating Revenues	<u>6,281,012</u>
OPERATING EXPENSES	
Aviation Area	
Utilities	13,376
Maintenance - Buildings	44,904
Power Vault - Diesel Fuel and Maintenance	4,028
Runway, Taxiway and Field Maintenance	35,102
Lighting and Electrical Maintenance	24,718
Field and Gate Maintenance	6,938
Snow and Ice Control	30,883
Ramps and Aprons	6,199
Equipment Rental	2,182
Environmental Compliance	13,080
Wildlife Control	7,809
Total Aviation Area	<u>189,219</u>
Terminal Area	
Electricity	297,493
Heating Fuel	27,364
Water and Sewer	57,488
Telephone	12,407
Electrical Maintenance	6,100
HVAC Maintenance	49,328
Building Repairs and Parts	40,956
Plumbing	8,997
Equipment and Furnishings	13,980
Roadway, Parking Lots and Field Maintenance Expense	84,950
Elevator Contract	32,894
Trash Removal Contract	29,298
Other Contractual Services	14,071
Total Terminal Area	<u>675,326</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING EXPENSES (CONTINUED)

Air Cargo Center		
Utilities		19,791
Heating Fuel		2,841
Trash Removal		2,910
Repairs and Maintenance		6,643
Total Air Cargo Center		<u>32,185</u>
Other Properties		
Office Annex		
Utilities	13,191	
Total Office Annex	<u>13,191</u>	
Other Property - Land and Buildings	1,795	
Total Other Properties		<u>14,986</u>
General Area - Public Safety		
Salaries		663,184
FICA Contributions and Unemployment		49,442
Retirement		88,974
Insurance		196,522
General Personnel Expense		14,458
Fire Hall Expense		15,772
Security - Parking and Identification		6,863
Medical Supplies		1,901
Vehicle Fuel		35,867
Supplies		2,988
Equipment Maintenance		32,170
Training		12,833
Uniforms		7,463
Dues and Subscriptions		1,394
Office Supplies		6,776
Telephone		4,183
Access Control		34,943
Seminars / Conferences		1,443
Medical and Psychological Testing		850
Total General Area - Public Safety		<u>1,178,026</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING EXPENSES (CONTINUED)

General Area - Maintenance

Salaries	377,047
FICA Contributions and Unemployment	28,263
Retirement	70,308
Insurance	130,321
General Personnel Expense	5,699
Utilities	14,726
Heating Fuel	3,024
Repairs and Maintenance	56,685
Gas and Oil	25,871
Small Tools	6,106
Uniforms - Maintenance	6,371
Supplies	8,207
Training	1,485
Total General Area - Maintenance	<u>734,113</u>

General Area - Janitorial

Salaries	251,163
FICA Contributions and Unemployment	18,588
Retirement	34,956
Insurance	46,141
General Personnel Expense	4,619
Supplies	35,216
Repairs and Maintenance	1,323
Uniforms	5,197
Snow Removal and Other	852
Total General Area - Janitorial	<u>398,055</u>

General Area - Airport Services

Salaries	54,551
FICA Contributions and Unemployment	4,149
Retirement	7,349
Insurance	5,994
General Personnel Expense	322
Supplies	2,014
Uniforms	652
Equipment	259
Total General Area - Airport Services	<u>75,290</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING EXPENSES (CONTINUED)

Marketing	
Salaries	121,038
FICA Contributions and Unemployment	9,170
Retirement	21,719
Insurance	16,915
General Personnel Expense	890
Advertising	8,420
Research and Development	10,839
Consulting Services	25,281
Marketing Initiative	255,064
Program Materials	12,420
Airline Relations	1,146
Community Relations	6,619
Travel	16,142
Professional Affiliations	610
Office Supplies	9,399
Total Marketing	<u>515,672</u>

Administrative

Salaries	516,632
FICA Contributions and Unemployment	41,449
Retirement	69,132
Medical Insurance	72,887
General Personnel Expense	13,336
Accounting	53,780
Legal	93,495
Insurance	224,999
Dues and Subscriptions	16,637
Engineering Services	500
Consulting Services	37,883
Office Supplies	22,675
Telephone	16,366
Maintenance	8,868
Seminars and Conferences	25,074
General Administrative Expense	20,939
Postage and Handling	2,334
Total Administrative	<u>1,236,986</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING EXPENSES (CONTINUED)

Air Cargo and Trade Development

Foreign Trade Zone

Marketing Initiatives	1,890
Contract Services	1,938
Professional Affiliations	1,329
Total Foreign Trade Zone	<u>5,157</u>

Administrative

Travel / Auto	11,753
Supplies, Furniture and Fixtures	1,856
Total Administrative	<u>13,609</u>

Personnel

Salaries	64,782
FICA Contributions and Unemployment	4,838
Medical Insurance	16,969
General Personnel Expense	472
Retirement Expense	11,674
Total Personnel	<u>98,735</u>

Total Air Cargo and Trade Development	<u>117,501</u>
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Parking

Salaries	190,057
FICA Contributions and Unemployment	15,120
General Personnel Expense	18,028
Recruiting	173
Uniforms	1,601
Supplies	2,403
Ticket and Printing Expense	507
Office Supplies	9,125
Repairs and Maintenance	18,798
License and Fees	151
Liability Insurance	300
Utilities	6,136
Postage and Freight	355
Telephone	3,048
Financial Services	1,849
Credit Card Discount	37,450
Miscellaneous	6,566
Management Fee	25,705
Total Parking	<u>337,372</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

OPERATING EXPENSES (CONTINUED)

Engineering	
Salaries	14,363
FICA Contributions and Unemployment	4,397
Retirement	11,395
Insurance	11,023
General Personnel Expense	523
Supplies	1,166
Miscellaneous	1,427
Training and Seminars	2,604
Dues and Subscriptions	1,844
Total Engineering	<u>48,742</u>
 RAC Service Facility	
Utilities	<u>69,349</u>
Total RAC Service Facility	<u>69,349</u>
 Ground Handling Services	
Salaries	136,657
FICA Contributions and Unemployment	10,368
Retirement	6,627
Insurance	11,018
General Personnel Expense	4,867
Supplies	559
Equipment and Maintenance	4,780
Miscellaneous	6,896
Total Ground Handling Services	<u>181,772</u>
 Total Operating Expenses	 <u>5,804,594</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

Operating Income before Depreciation	476,418
Less: Depreciation	<u>3,643,867</u>
Operating Loss	<u>(3,167,449)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	21,284
Interest Expense	(198,923)
Bond Issuance Costs	(73,202)
Proceeds from Sale of Assets	8,697
Amortization of Loss on Refunding	(15,317)
PFC Revenue	883,130
CFC Revenue	341,898
Total Nonoperating Revenues (Expenses)	<u>967,567</u>
Loss before Capital Contributions	<u>(2,199,882)</u>
CAPITAL CONTRIBUTIONS	
Federal Grants	17,022,388
State Grants	1,101,654
Other Capital Contribution	24,285
Total Capital Contributions	<u>18,148,327</u>
CHANGE IN NET POSITION	15,948,445
NET POSITION, JULY 1	<u>72,116,237</u>
NET POSITION, JUNE 30	<u><u>\$ 88,064,682</u></u>

The accompanying notes are an integral part of these basic financial statements.

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 6,239,332
Cash Payments to Suppliers for Goods and Services	(2,154,637)
Cash Payments to Employees for Services	(2,366,329)
Cash Payments for Employee Benefits	(1,075,840)
Cash Payments for Insurance	(175,654)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	466,872
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(18,737,335)
Proceeds from Sale of Assets	8,697
Capital Grants Received	19,031,639
Capital Contribution Received	24,285
PFC Funds Received	840,975
CFC Funds Received	341,898
Interest Paid	(182,939)
Bond Issuance Costs	(73,202)
Bond Payments	(1,375,000)
	<hr/>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(120,982)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(17,793)
Interest Received	21,284
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,491
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	349,381
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	3,303,466
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u><u>\$ 3,652,847</u></u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (3,167,449)
Adjustments	
Depreciation	3,643,867
(Increase) Decrease in Assets	
Net Accounts Receivable	(41,679)
Prepaid Expenses	49,345
Increase (Decrease) in Liabilities	
Accounts Payable	(34,517)
Accrued Expenses	(5,840)
Accrued Vacation	14,367
Accrued Wages	8,357
Accrued Compensation	421
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 466,872</u></u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash on Hand	\$ 3,351
Cash in Bank - Checking	2,085,947
Cash in Bank - Passenger Facility Charges	194,588
Cash in Bank - Customer Facility Charges	260,052
Cash in Bank - Escrow	725,899
Cash on Deposit with other Governmental Entities - Debt Service Reserve	383,010
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u><u>\$ 3,652,847</u></u>

The accompanying notes are an integral part of these basic financial statements.

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Notes to the Basic Financial Statements



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TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Tri-Cities Airport Authority (the Authority) is reported as an enterprise fund, a proprietary fund type to account for the operation of the Airport facility. The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Reimbursements of operating expenses by the federal and state governments are reported as operating revenues. Operating expenses for the Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Restricted Assets

Restricted assets are held to satisfy bond principal and interest sinking fund requirements or are otherwise held for certain capital improvement projects.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are reported at the net realizable amounts from third-party payors, lease payments, and other services rendered. Accounts receivable are reported net of an allowance for uncollectible amounts. The allowance for uncollectible amounts is based on prior collection history of receivables, known collection risks and environmental factors, including the age of the receivables.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, runways, parking lots, and similar items), are defined by the Authority as assets with an initial individual cost of \$3,000 and greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Runways, Roads, etc.	20 years
Parking Lot	20 years
Terminal Building	30 years
Other Buildings	30 years
Equipment and Vehicles	5-20 years

Investments and Cash Equivalents

Investments are recorded at fair values as determined by quoted market prices at the Statement of Net Position date. Investments that have an original maturity of three months or less are considered cash equivalents for purposes of the Statement of Cash Flows.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Net Position

Net Position is the difference between assets, deferred outflows, liabilities and deferred inflows. The net investment in capital assets is capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations on its use by external restrictions imposed by other governments, creditors or grantors.

Budgets

Under the by-laws of the Authority, management must submit an annual operating budget to the Tri-Cities Airport Board of Commissioners for approval. In addition, management must submit to the Commissioners annually a capital improvements budget.

The Authority is not required to demonstrate statutory compliance with annual operating or capital improvement budgets. Accordingly, budgetary data is not included in the basic financial statements. Unexpended appropriations lapse at fiscal year end.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - GENERAL INFORMATION

The Authority is jointly governed by the following governmental agencies:

	<u>Representation</u>
Washington County, Tennessee	3 Commissioners
City of Johnson City, Tennessee	3 Commissioners
Sullivan County, Tennessee	2 Commissioners
City of Kingsport, Tennessee	2 Commissioners
City of Bristol, Tennessee	1 Commissioner
City of Bristol, Virginia	1 Commissioner

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash on the Statement of Net Position and Statement of Cash Flows include cash on hand, demand deposits, and certificates of deposit with an original maturity of three months or less. There are some certificates of deposit that have an original maturity of greater than three months. These are shown as noncurrent restricted assets.

Cash and Certificates of Deposit are covered by Federal Deposit Insurance Corporation (FDIC) insurance or by the state collateral pool. The Authority is exposed to concentration of credit risk by placing its deposits in financial institutions. To mitigate custodial credit risk, the Authority ensures that bank balances within excess of the FDIC coverage are held in financial institutions which are members of the State of Tennessee bank collateral pool to ensure excess balances are fully collateralized at all times.

DEPOSITS - All deposits with financial institutions other than savings and loan associations must be collateralized in an amount equal to 105% of the fair value of uninsured deposits. Deposits with savings and loan associations must be collateralized by one of the following methods: 1) By an amount equal to 110% of the fair value of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) By an irrevocable letter of credit issued by the Federal Home Loan Bank; or 3) By providing notes secured by first mortgages or first deeds of trust upon residential real property located in Tennessee. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits.

NOTE 4 - DEBT SERVICE RESERVE

The debt service account was funded from restricted assets of the Authority. The cash is on deposit with the Sullivan County Trustee and is to be invested in an interest bearing account. These monies are to be used only to the extent that the funds in the principal and interest account are insufficient to cover principal and interest requirements for the bonds described in Note 9.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 - PREPAID EXPENSES

Payments made for insurance that will benefit periods beyond June 30, 2014 are recorded as prepaid. Prepaid expenses consisted of the following:

Insurance	<u>\$38,813</u>
Total Prepaid Expenses	<u>\$38,813</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital Asset activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 15,294,926	-	-	15,294,926
Construction in Progress	<u>12,861,651</u>	<u>18,922,967</u>	<u>(3,681,256)</u>	<u>28,103,362</u>
Total Capital Assets, Not Being Depreciated	<u>28,156,577</u>	<u>18,922,967</u>	<u>(3,681,256)</u>	<u>43,398,288</u>
Capital Assets, Being Depreciated				
Runways and Roads	66,990,379	1,188,840	-	68,179,219
Parking Lot	4,936,487	-	-	4,936,487
Terminal Building	16,131,832	1,725,255	-	17,857,087
Other Buildings	10,438,463	-	-	10,438,463
Equipment and Vehicles	10,005,594	128,486	-	10,134,080
Master Plans	<u>655,524</u>	<u>664,521</u>	-	<u>1,320,045</u>
Total Capital Assets, Being Depreciated	<u>109,158,279</u>	<u>3,707,102</u>	<u>0</u>	<u>112,865,381</u>
Accumulated Depreciation				
Runways and Roads	(41,678,298)	(2,150,828)	-	(43,829,126)
Parking Lot	(2,230,709)	(225,594)	-	(2,456,303)
Terminal Building	(9,405,711)	(595,727)	-	(10,001,438)
Other Buildings	(5,323,185)	(303,119)	-	(5,626,304)
Equipment and Vehicles	(7,839,778)	(316,131)	-	(8,155,909)
Master Plans	<u>(500,848)</u>	<u>(52,468)</u>	-	<u>(553,316)</u>
Total Accumulated Depreciation	<u>(66,978,529)</u>	<u>(3,643,867)</u>	<u>0</u>	<u>(70,622,396)</u>
Net Capital Assets, Being Depreciated	<u>42,179,750</u>	<u>63,235</u>	<u>0</u>	<u>42,242,985</u>
Net Capital Assets	<u>\$ 70,336,327</u>	<u>18,986,202</u>	<u>(3,681,256)</u>	<u>85,641,273</u>

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 - RESTRICTED ASSETS

Money received from the airlines for passenger facility charges is restricted for use on capital improvement projects approved by the Federal Aviation Administration or to repay debt associated with these projects.

A customer facility charge assessed on rental car contracts is restricted for use on capital improvement projects associated with the rental car enterprises.

Cash on deposit with other governmental entities is restricted for use on capital improvement projects.

Cash on deposit is restricted for use on payment of construction escrows.

NOTE 8 - ACCRUED COMPENSATION

Employees earn 40 hours of vacation at the completion of six months of service; 80 additional hours after completion of one year; 120 hours after five years, 160 hours after 12 years; and 200 hours after 25 years of continuous employment. Vacation time is awarded on the anniversary date and should be used during the year; however, unused vacation time of up to 120 hours can be carried forward into the next year. The carry forward amount cannot accumulate for more than a one year period and the carry forward balance cannot exceed 120 hours at any time.

Employees earn one sick day per month to a maximum of 10 per year. An unlimited number of days may be accumulated toward retirement; however, no lump sum payment will be made by the Authority for accumulated sick days.

Employees, excluding supervisors and senior staff, may accumulate additional leave for overtime hours worked in lieu of immediate payment. This amount is accrued at the present pay rate multiplied by those hours, which are adjusted to reflect time and a half.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 9 - LONG-TERM DEBT

Airport Revenue and Tax Refunding, Series 2014 Bonds

The \$2,975,000 Airport Revenue and Tax Refunding (Taxable) Bonds, Series 2014A, were issued January 28, 2014 by Sullivan County, Tennessee for the purpose of providing funds to refinance in advance of its maturity the Authority's outstanding Airport Revenue and Tax Bonds, Series 2003 dated August 1, 2003, maturing May 1, 2023.

The bonds are payable primarily from and secured by a pledge and assignment of PFC and operating revenues from the Authority. The bonds will mature serially each May 1, beginning May 1, 2014 and ending May 1, 2023. Interest rates are scheduled and vary from 5.125% to 5.8%. Interest payments are due semi-annually on May 1st and November 1st, beginning May 1, 2014.

Total Airport Revenue and Tax Refunding Bonds debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal Payments	Annual Interest	Total Debt Service
2015	\$ 290,000	86,041	376,041
2016	310,000	66,068	376,068
2017	310,000	59,868	369,868
2018	320,000	53,667	373,667
2019	330,000	42,268	372,268
2020-2023	1,415,000	108,347	1,523,347
	<u>\$ 2,975,000</u>	<u>416,259</u>	<u>3,391,259</u>

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 4,350,000	-	(1,375,000)	2,975,000	290,000
Plus: Premium	<u>-</u>	<u>28,373</u>	<u>-</u>	<u>28,373</u>	<u>-</u>
Total Bonds Payable	4,350,000	28,373	(1,375,000)	3,003,373	290,000
Compensated Absences	<u>164,498</u>	<u>120,901</u>	<u>(106,113)</u>	<u>179,286</u>	<u>172,066</u>
Total Long-Term Liabilities	<u>\$ 4,514,498</u>	<u>149,274</u>	<u>(1,481,113)</u>	<u>3,182,659</u>	<u>462,066</u>

NOTE 10 - PENSION PLAN

PLAN DESCRIPTION

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Authority participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The Authority withdrew from TCRS effective July 1, 2012. Employees hired after the date of withdrawal are not eligible to participate in TCRS. Employees active as of the withdrawal date will continue to accrue salary and service credit in TCRS. The employer remains responsible for the pension liability for employees that were active as of the withdrawal date and for retirees of the employer.

The Authority re-entered TCRS effective July 1, 2013 in the Hybrid Pension Plan. Vested members in the Hybrid Pension Plan become eligible to retire at the age of 65 with five years of service or upon such time that the member's age plus years of service total at least 90. A reduced retirement benefit is available to vested members at the age of 60 with five years of service or upon such time that the member's age plus years of service total at least 80.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - PENSION PLAN (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

FUNDING POLICY

The Authority has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.00% of annual covered payroll.

The Authority is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2014 was 17.89% and 5.90% of annual covered payroll for the Legacy and Hybrid Pension Plans, respectively. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

ANNUAL PENSION COST

For the fiscal year ending June 30, 2014, the Authority's annual pension cost of \$299,934 to TCRS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected 3.00% annual rate of inflation (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.50% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.50% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 9 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2014	\$299,934	100.00%	\$0
June 30, 2013	\$341,646	100.00%	\$0
June 30, 2012	\$378,316	100.00%	\$0

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - PENSION PLAN (CONTINUED)

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was 75.68% percent funded. The actuarial accrued liability for benefits was \$9.32 million, and the actuarial value of assets was \$7.05 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.27 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.77 million, and the ratio of the UAAL to the covered payroll was 127.79%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar Amounts in Thousands)

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2013	\$ 7,049	\$ 9,315	\$ 2,266	75.68%	\$ 1,773	127.79%
July 1, 2011	\$ 6,408	\$ 7,643	\$ 1,235	83.84%	\$ 1,891	65.35%
July 1, 2009	\$ 5,296	\$ 5,342	\$ 46	99.14%	\$ 2,041	2.24%

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 11 - RISK MANAGEMENT ACTIVITIES

The Authority carries insurance coverage through ACE and Cincinnati Insurance Company for general liability, commercial property, business automobile liability, and business interruption/loss of income. Workers compensation insurance is provided through USAIG. Additional coverage for public officials is provided by AIG.

The Authority established an investment account committed as an insurance contingency fund to cover any claims not covered by insurance during the fiscal year ended June 30, 1987. The action required initial funding of \$500,000. During the fiscal year ended June 30, 1990, an additional \$200,000 was added. Funding for successive fiscal years is subject to a majority vote of the Authority. Withdrawals from the fund will only be allowed by a two-thirds vote of the Authority. There have been no claims paid from this fund over the past nine fiscal years.

In addition, the Authority provides medical insurance through United Healthcare. No portion of health insurance is self-funded. No settlements exceeded insurance coverage for each of the past eight fiscal years.

NOTE 12 - LITIGATION

The Authority is involved in various legal proceedings arising in the normal course of business. To the extent the outcome of such litigation has been determined to result in probable loss to the Authority, such loss for which the Authority is responsible for funding has been accrued in the accompanying financial statements. Litigation where loss to the Authority is reasonably possible has not been accrued; however, the Authority and Attorney for the Authority have not identified any events which appear both probable and measurable.

The Authority holds a private insurance policy which has an aggregate deductible of \$25,000; therefore, the Authority has accrued \$25,000 that is the maximum liability to the Authority.

The Authority and Attorney for the Authority believes that the various asserted claims and litigation will not materially affect its financial position, although no assurance can be given with respect to the ultimate outcome of any such claims or litigation.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 13 - DISADVANTAGED-OWNED BUSINESS EXPENSES

The Authority's disadvantaged-owned business goals were as follows:

<u>Project</u>	<u>Goal</u>	<u>Actual</u>
AIP-3-47-004-62	4.90%	5.50%
AIP 3-47-004-64	4.90%	In process
AIP 3-47-004-65	4.90%	In process

NOTE 14 - ECONOMIC DEPENDENCY

The Authority obtains substantially all of its funding for capital projects and improvements from grants provided by the Federal Aviation Administration and State of Tennessee Department of Transportation Aeronautics Division.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Authority has entered into approximately \$2,800,000 of construction contract commitments that had begun and were in-process at fiscal year-end. These construction contract commitments will be paid primarily with capital grants.

NOTE 16 - ACCOUNTING CHANGES

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* became effective for the fiscal year ended June 30, 2014.

Required Supplemental Schedule



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**TRI-CITIES AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2014**

(Dollar Amounts in Thousands)						
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	(AAL) Actuarial Accrued Liability	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2013	\$ 7,049	\$ 9,315	\$ 2,266	75.68%	\$ 1,773	127.79%
July 1, 2011	\$ 6,408	\$ 7,643	\$ 1,235	83.84%	\$ 1,891	65.35%
July 1, 2009	\$ 5,296	\$ 5,342	\$ 46	99.14%	\$ 2,041	2.24%

See Independent Auditors' Report.

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Supplemental Schedules



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TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

CFDA Number	Grantor Agency	Grant Number	Program Description	Balance July 1, 2013	Cash Receipts	Expenditures	¹ Adjustments	Balance June 30, 2014 ²
20.106	Federal Aviation Administration	AIP 3-47-0004-55	Runway Rehabilitation and Road Relocation Design	\$ 42,897	42,897	-	-	-
		AIP 3-47-0004-61	Terminal Building Access Control, High Speed Snow Broom, Fingerprint Machine and Airfield Improvements	31,634	32,911	51	1,226	-
		AIP 3-47-0004-62	Hamilton Road Relocation and Taxiway Romeo Construction	594,294	4,676,744	4,846,159	-	763,709
		AIP 3-47-0004-56 (AIP 63)	Runway 27, ARFF Firesuits, Terminal Ramp Access, Grande Harbor Property	266,584	439,269	67,028	105,657	-
		AIP 3-47-0004-64	Runway 5/23 Rehab; Airfield Runway Aero Survey	420,916	11,303,117	11,144,715	-	262,514
		AIP 3-47-0004-65	Rehabilitate Terminal Access Road, Emergency Operations Center, Access Control, Security Center Relocation and Perimeter Security Fence	-	806,446	857,552	-	51,106
				<u>\$ 1,356,325</u>	<u>17,301,384</u>	<u>16,915,505</u>	<u>106,883</u>	<u>1,077,329</u>

¹ This Schedule reflects the federal grantor's share of the expenditures.

² These balances represent amounts due from the grantor.

³ These balances represent an amendment to the approved federal budget or prior year expenditures.

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Tri-Cities Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(Continued)

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-61
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Access Control Fingerprint Equipment	\$ -	19,483	11,503	(7,980)	-
Terminal Access Control Improvement	53	221,398	219,660	(1,738)	-
Rwy 23 PAPI PCU Relocation	-	19,530	16,830	(2,700)	-
High Speed Runway Broom	-	101,736	134,438	32,702	-
	<u>\$ 53</u>	<u>362,147</u>	<u>382,431</u>	<u>20,284</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 51	344,041	363,309	19,268	-
State Grant (2.5%)	1	9,053	9,561	508	-
Tri-Cities Airport Authority	1	9,053	9,561	508	-
	<u>\$ 53</u>	<u>362,147</u>	<u>382,431</u>	<u>20,284</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-62
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Hamilton Road Relocation and Taxiway Romeo Construction	\$ 5,101,220	9,798,767	10,233,553	434,786	-
	<u>\$ 5,101,220</u>	<u>9,798,767</u>	<u>10,233,553</u>	<u>434,786</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 4,846,159	9,308,828	9,721,875	413,047	-
State Grant (2.5%)	127,531	244,853	255,839	10,986	-
Tri-Cities Airport Authority	<u>127,530</u>	<u>245,086</u>	<u>255,839</u>	<u>10,753</u>	<u>-</u>
	<u>\$ 5,101,220</u>	<u>9,798,767</u>	<u>10,233,553</u>	<u>434,786</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-56 (AIP 63)
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 27 RSA Improvement	\$ 67,022	621,220	620,682	(538)	-
ARFF Equipment Replacement	9	56,747	55,953	(794)	-
Terminal Ramp Access Control	3,721	214,918	219,653	4,735	-
Grande Harbor Property	-	1,030,518	1,036,534	6,016	-
	<u>\$ 70,752</u>	<u>1,923,403</u>	<u>1,932,822</u>	<u>9,419</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 67,028	1,709,581	1,709,581	-	-
State Grant (2.5%)	1,676	41,294	44,182	2,888	-
State Grant (5%)	186	13,583	67,439	53,856	-
Tri-Cities Airport Authority	1,862	158,945	111,620	(47,325)	-
	<u>\$ 70,752</u>	<u>1,923,403</u>	<u>1,932,822</u>	<u>9,419</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-64
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehab	\$ 12,143,526	13,791,355	14,978,700	1,187,345	-
Airfield Runway Aero Survey	17,390	17,502	112,623	95,121	-
Rehab Design Construction	222,100	580,104	704,200	124,096	-
	<u>\$ 12,383,016</u>	<u>14,388,961</u>	<u>15,795,523</u>	<u>1,406,562</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (90%)	\$ 11,144,715	12,950,066	14,215,971	1,265,905	-
State Grant (5%)	619,151	719,448	789,776	70,328	-
Tri-Cities Airport Authority	619,150	719,447	789,776	70,329	-
	<u>\$ 12,383,016</u>	<u>14,388,961</u>	<u>15,795,523</u>	<u>1,406,562</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-65
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Rehabilitate Terminal Access Road	\$ 149,769	149,769	1,340,276	1,190,507	-
Emergency Operations Center					
Access Control, Security Center Relocation					
and Perimeter Security Fence	803,067	803,067	754,921	(48,146)	-
	<u>\$ 952,836</u>	<u>952,836</u>	<u>2,095,197</u>	<u>1,142,361</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 857,552	857,552	1,885,677	1,028,125	-
State Grant	7,486	7,486	55,500	48,014	-
State Grant	37,500	37,500	37,500	-	-
Tri-Cities Airport Authority	50,298	50,298	116,520	66,222	-
	<u>\$ 952,836</u>	<u>952,836</u>	<u>2,095,197</u>	<u>1,142,361</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2014

CFDA				Balance	Cash			Balance
Number	Grantor Agency	Grant Number	Program Description	July 1, 2013	Receipts	Expenditures ¹	Adjustments ³	June 30, 2014 ²
N/A	TN Dept. of							
	Transportation	82-555-0424-04	Runway 5/23 Rehab Airfield Runway Aero Survey (AIP 64)	\$ 100,298	634,921	619,151	-	84,528
		82-555-0428-04	Aviation Park II - Master Grading Plan	-	-	124	-	124
		82-555-0723-04	Corp Hanger Taxilane Rehab	3,916	9,081	21,677	-	16,512
		82-555-0725-04	Communication Center Emergency Operations, Security Fencing and Access Control (AIP 65)	-	-	37,500	-	37,500
		82-555-0726-04	Terminal Access Road (AIP 65)	646	6,907	7,486	(646)	579
		82-555-0727-04	Short Term Parking Entrance	-	11,169	12,629	-	1,460
		82-555-0799-04	Terminal Sound System Improvements	6,284	-	-	-	6,284
		82-555-1013-04 and	Professional Services	78,740	103,234	43,204	-	18,710
		82-555-1711-04						
		82-555-1016-04	Terminal Ramp Reconstruction Phase II (AIP 53)	3,486	2,573	-	(913)	-
		82-555-1017-04	Road Relocation (AIP 55)	14,761	14,761	-	-	-
		82-555-1025-04	Runway 5/23 Rehabilitation (AIP 55)	53	-	-	-	53
		82-555-1019-04	Glycol and Fuel Farm	3,054	25	-	(3,029)	-
		82-555-1020-04	Terminal Building Improvements Phase II	-	14,836	45	14,836	45
		82-555-1021-04	Terminal Ramp Phase II, Security Fence Phase II and	5,169	5,169	-	-	-
		82-555-1024-04	South Aviation Dev. Hanger	-	24,900	20,408	4,492	-
		82-555-1026-04	Wildlife Management Assessment	7,039	6,139	-	-	900
		82-555-1100-04	Sinkhole Repair and Signage (AIP 60)	947	-	-	-	947
		82-555-1105-04	Land Acquisition - Mapleview Farms (AIP 59)	9,506	-	-	-	9,506
		82-555-1107-04	Snow Plow and Building Demolition (AIP 60)	10,458	-	-	-	10,458
		82-555-1112-04	Terminal Building Access Control, High Speed Snow Broom, Fingerprint Machine and Airfield Improvements (AIP 61)	7,690	5,026	1	-	2,665
		82-555-1114-04	Hamilton Road Relocation and Taxiway Romeo Construction (AIP 62)	117,322	211,760	127,531	-	33,093
		82-555-1702-04	North Ramp Plane Port	3,442	-	-	-	3,442
		82-555-1703-04	G.A. Terminal Rehab	-	14,613	11,665	2,948	-
		82-555-1704-04	Obstruction Removal Runway 5	1,262	-	-	-	1,262
		82-555-1713-04	Terminal Building Improvements Phase III	324,940	387,784	103,744	-	40,900
		82-555-1717-04	Access Control Windows	8,350	8,350	-	-	-
		82-555-1718-04	Rwy 23 Tree Obstruction	155,525	166,999	12,862	-	1,388
		82-555-1719-04	Communications Center Relocation	14,229	44,122	49,768	-	19,875
		82-555-1720-04	G.A. Development T Hangers	-	-	14,309	-	14,309
		82-555-1721-04	Equipment Replacement	41,814	41,814	-	-	-
		82-555-1101-04	Grande Harbor (AIP 63)	16,990	1,275	-	-	15,715
		82-555-1722-04	Rwy 27 Displaced Threshold (AIP 63)	13,855	14,797	1,853	-	911
		82-555-1722-04	ARFF Fire Suits and Self Contained Air Tank (AIP 63)	13,397	-	9	-	13,406
				<u>\$ 963,173</u>	<u>1,730,255</u>	<u>1,083,966</u>	<u>17,688</u>	<u>334,572</u>

¹ This Schedule reflects the state grantor's share of the expenditures.

² These balances represent amounts due from the grantor.

³ These balances represent rounding, amendments or expired grants.

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0424-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehab	\$ 12,143,526	13,791,355	14,978,700	1,187,345	-
Airfield Runway Aero Survey	17,390	17,502	112,623	95,121	-
Rehab Design Construction	222,100	580,104	704,200	124,096	-
	<u>\$ 12,383,016</u>	<u>14,388,961</u>	<u>15,795,523</u>	<u>1,406,562</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (90%)	\$ 11,144,715	12,950,066	14,215,971	1,265,905	-
State Grant (5%)	619,151	719,448	789,776	70,328	-
Tri-Cities Airport Authority	619,150	719,447	789,776	70,329	-
	<u>\$ 12,383,016</u>	<u>14,388,961</u>	<u>15,795,523</u>	<u>1,406,562</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0428-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Aviation Park II - Master Grading Plan	\$ 130	130	76,480	76,350	-
	<u>\$ 130</u>	<u>130</u>	<u>76,480</u>	<u>76,350</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (95%)	\$ 124	124	72,656	72,532	-
Tri-Cities Airport Authority	6	6	3,824	3,818	-
	<u>\$ 130</u>	<u>130</u>	<u>76,480</u>	<u>76,350</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0723-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Corp Hanger Taxilane Rehab	\$ 22,818	26,940	287,000	260,060	-
	<u>\$ 22,818</u>	<u>26,940</u>	<u>287,000</u>	<u>260,060</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (95%)	\$ 21,677	25,388	272,650	247,262	-
Tri-Cities Airport Authority	<u>1,141</u>	<u>1,552</u>	<u>14,350</u>	<u>12,798</u>	<u>-</u>
	<u>\$ 22,818</u>	<u>26,940</u>	<u>287,000</u>	<u>260,060</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0725-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Emergency Operations Center, Access Control, Security Center Relocation and Perimeter Security Fence	\$ 803,067	803,067	754,921	(48,146)	-
	<u>\$ 803,067</u>	<u>803,067</u>	<u>754,921</u>	<u>(48,146)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 722,760	722,760	679,429	(43,331)	-
State Grant (5%)	37,500	37,500	37,500	-	-
Tri-Cities Airport Authority	42,807	42,807	37,992	(4,815)	-
	<u>\$ 803,067</u>	<u>803,067</u>	<u>754,921</u>	<u>(48,146)</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0726-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Access Road	\$ 149,769	149,769	1,340,276	1,190,507	-
	<u>\$ 149,769</u>	<u>149,769</u>	<u>1,340,276</u>	<u>1,190,507</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (90%)	\$ 134,792	134,792	1,206,248	1,071,456	-
State Grant	7,486	7,486	55,500	48,014	-
Tri-Cities Airport Authority	<u>7,491</u>	<u>7,491</u>	<u>78,528</u>	<u>71,037</u>	<u>-</u>
	<u>\$ 149,769</u>	<u>149,769</u>	<u>1,340,276</u>	<u>1,190,507</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0727-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Short Term Parking Entrance	\$ 13,294	13,294	425,000	411,706	-
	<u>\$ 13,294</u>	<u>13,294</u>	<u>425,000</u>	<u>411,706</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (95%)	\$ 12,629	12,629	403,750	391,121	-
Tri-Cities Airport Authority	665	665	21,250	20,585	-
	<u>\$ 13,294</u>	<u>13,294</u>	<u>425,000</u>	<u>411,706</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1013-04 and 82-555-1711-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Professional Services	\$ 48,005	161,245	190,000	28,755	-
	<u>\$ 48,005</u>	<u>161,245</u>	<u>190,000</u>	<u>28,755</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 43,204	145,120	171,000	25,880	-
Tri-Cities Airport Authority	<u>4,801</u>	<u>16,125</u>	<u>19,000</u>	<u>2,875</u>	<u>-</u>
	<u>\$ 48,005</u>	<u>161,245</u>	<u>190,000</u>	<u>28,755</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1020-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Building - Phase II	\$ 50	912,053	936,814	24,761	-
	<u>\$ 50</u>	<u>912,053</u>	<u>936,814</u>	<u>24,761</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 45	820,848	843,132	22,284	-
Tri-Cities Airport Authority	<u>5</u>	<u>91,205</u>	<u>93,682</u>	<u>2,477</u>	<u>-</u>
	<u>\$ 50</u>	<u>912,053</u>	<u>936,814</u>	<u>24,761</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1024-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
S. Aviation Dev. Hangar - Design	\$ -	282,668	264,660	(18,008)	-
S. Aviation Dev. Hangar - Construction	22,675	2,090,482	2,155,604	65,122	-
	<u>\$ 22,675</u>	<u>2,373,150</u>	<u>2,420,264</u>	<u>47,114</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 20,408	2,135,835	2,178,238	42,403	-
Tri-Cities Airport Authority	2,267	237,315	242,026	4,711	-
	<u>\$ 22,675</u>	<u>2,373,150</u>	<u>2,420,264</u>	<u>47,114</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1112-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Access Control Fingerprint Equipment	\$ -	19,483	11,503	(7,980)	-
Terminal Access Control Improvement	53	221,398	219,660	(1,738)	-
Rwy 23 PAPI PCU Relocation	-	19,530	16,830	(2,700)	-
High Speed Runway Broom	-	101,736	134,438	32,702	-
	<u>\$ 53</u>	<u>362,147</u>	<u>382,431</u>	<u>20,284</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 51	344,041	363,309	19,268	-
State Grant (2.5%)	1	9,053	9,561	508	-
Tri-Cities Airport Authority	1	9,053	9,561	508	-
	<u>\$ 53</u>	<u>362,147</u>	<u>382,431</u>	<u>20,284</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1114-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Hamilton Road Relocation and Taxiway Romeo Construction	\$ 5,101,220	9,798,767	10,233,553	434,786	-
	<u>\$ 5,101,220</u>	<u>9,798,767</u>	<u>10,233,553</u>	<u>434,786</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 4,846,159	9,308,828	9,721,875	413,047	-
State Grant (2.5%)	127,531	244,853	255,839	10,986	-
Tri-Cities Airport Authority	<u>127,530</u>	<u>245,086</u>	<u>255,839</u>	<u>10,753</u>	<u>-</u>
	<u>\$ 5,101,220</u>	<u>9,798,767</u>	<u>10,233,553</u>	<u>434,786</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1703-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
GA Terminal Rehab - Designs	\$ -	129,269	102,000	(27,269)	
GA Terminal Rehab - Construction	16,156	1,153,192	1,155,073	1,881	-
	<u>\$ 16,156</u>	<u>1,282,461</u>	<u>1,257,073</u>	<u>(25,388)</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 11,665	1,131,366	1,131,366	-	-
Tri-Cities Airport Authority	4,491	151,095	125,707	(25,388)	-
	<u>\$ 16,156</u>	<u>1,282,461</u>	<u>1,257,073</u>	<u>(25,388)</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1713-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Building Improvements - Phase III Design	\$ -	44,870	44,870	-	-
Terminal Building Improvements - Construction	66,771	366,305	613,158	246,853	-
Terminal Building Improvements -2013	42,434	42,434	1,032,325	989,891	-
	<u>\$ 109,205</u>	<u>453,609</u>	<u>1,690,353</u>	<u>1,236,744</u>	<u>0</u>
<u>Share of Cost</u>					
<u>Design</u>					
State Grant (90%)	\$ -	40,383	40,383	-	-
Tri-Cities Airport Authority	-	4,487	4,487	-	-
	<u>0</u>	<u>44,870</u>	<u>44,870</u>	<u>0</u>	<u>0</u>
<u>Construction - 2012</u>					
State Grant (95%)	63,432	347,989	582,500	234,511	-
Tri-Cities Airport Authority	3,339	18,316	30,658	12,342	-
	<u>66,771</u>	<u>366,305</u>	<u>613,158</u>	<u>246,853</u>	<u>0</u>
<u>Construction - 2013</u>					
State Grant (95%)	40,312	40,312	980,709	940,397	-
Tri-Cities Airport Authority	2,122	2,122	51,616	49,494	-
	<u>42,434</u>	<u>42,434</u>	<u>1,032,325</u>	<u>989,891</u>	<u>0</u>
	<u>\$ 109,205</u>	<u>453,609</u>	<u>1,690,353</u>	<u>1,236,744</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1718-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Rwy 23 Tree Obstruction	\$ 14,290	187,096	187,000	(96)	-
	<u>\$ 14,290</u>	<u>187,096</u>	<u>187,000</u>	<u>(96)</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 12,862	173,150	173,150	-	-
Tri-Cities Airport Authority	<u>1,428</u>	<u>13,946</u>	<u>13,850</u>	<u>(96)</u>	<u>-</u>
	<u>\$ 14,290</u>	<u>187,096</u>	<u>187,000</u>	<u>(96)</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1719-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Communications Center Relocation Design	\$ 55,298	71,108	75,000	3,892	-
	<u>\$ 55,298</u>	<u>71,108</u>	<u>75,000</u>	<u>3,892</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 49,768	63,997	67,500	3,503	-
Tri-Cities Airport Authority	<u>5,530</u>	<u>7,111</u>	<u>7,500</u>	<u>389</u>	<u>-</u>
	<u>\$ 55,298</u>	<u>71,108</u>	<u>75,000</u>	<u>3,892</u>	<u>0</u>

(Continued)

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1720-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
G.A. Development T Hangers Design	\$ 15,899	15,899	99,000	83,101	-
	<u>\$ 15,899</u>	<u>15,899</u>	<u>99,000</u>	<u>83,101</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 14,309	14,309	89,100	74,791	-
Tri-Cities Airport Authority	<u>1,590</u>	<u>1,590</u>	<u>9,900</u>	<u>8,310</u>	<u>-</u>
	<u>\$ 15,899</u>	<u>15,899</u>	<u>99,000</u>	<u>83,101</u>	<u>0</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1722-04 and 82-555-1101-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2014

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 27 RSA Improvement	\$ 67,022	621,220	620,682	(538)	-
ARFF Equipment Replacement	9	56,747	55,953	(794)	-
Terminal Ramp Access Control	3,721	214,918	219,653	4,735	-
Grande Harbor Property	-	1,030,518	1,036,534	6,016	-
	<u>\$ 70,752</u>	<u>1,923,403</u>	<u>1,932,822</u>	<u>9,419</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 67,028	1,709,581	1,709,581	-	-
State Grant (2.5%)	1,676	41,294	44,182	2,888	-
State Grant (5%)	186	13,583	67,439	53,856	-
Tri-Cities Airport Authority	1,862	158,945	111,620	(47,325)	-
	<u>\$ 70,752</u>	<u>1,923,403</u>	<u>1,932,822</u>	<u>9,419</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES,
INVESTMENT INCOME AND RELATED EXPENDITURES
For the Fiscal Year Ended June 30, 2014**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Cash Balance, July 1, 2013					\$ 810,821
Passenger Facility Charges	216,647	240,248	155,694	231,275	843,864
Investment Income	786	702	669	393	2,550
Related Expenditures	-	(432,422)	-	(557,860)	<u>(990,282)</u>
Cash Balance, June 30, 2014					666,953
Receivable June 30, 2014					<u>129,664</u>
Restricted PFC Funds					<u><u>\$ 796,617</u></u>

See Independent Auditors' Report.

Statistical

- Unaudited financial and demographic information



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STATISTICAL SECTION

The statistical section of the Comprehensive Annual Financial Report provides detailed information to enhance the understanding of the financial condition of the Tri-Cities Airport Authority. This statistical section is from the Airport Authority's fiscal year 2014 Comprehensive Annual Financial Report.

CONTENTS

Financial Trends

These schedules contain trend information to help the reader understand how the Airport's financial performance and condition have changed over time.

Revenue Capacity

These schedules contain information to help the reader understand the make-up of the Airport's revenue sources. The Airport Authority presents landed weights, square footage, public safety reimbursement and other airline related revenues along with parking rates to illustrate their primary revenue sources.

Debt Capacity

These schedules present information on the Airport's ability to meet their current debt service. The Airport Authority did not have any long-term bond debt prior to 1995. A schedule is included for Passenger Facility Charges and Customer Facility Charges as these two restricted revenue sources are the primary source for long-term bond debt service.

Demographic and Economic Information

These schedules offer demographic and economic indicators to show the environment within the surrounding area of the Airport.

Operating Information

These schedules contain service and infrastructure data to assist the reader in understanding how the Airport operates. The schedules presented include operating results, employees, capital assets, and source of funding for capital assets.

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Tri-Cities Airport Authority
TABLE 1:
Net Position and Changes in Net Position
Last Ten Fiscal Years (Unaudited)

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>
OPERATING REVENUES	\$ 6,281,012	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,932	\$ 5,985,500	\$ 5,740,432
OPERATING EXPENSES	<u>5,804,594</u>	<u>5,669,838</u>	<u>5,422,576</u>	<u>5,347,016</u>	<u>5,101,080</u>	<u>5,431,972</u>	<u>5,415,059</u>	<u>5,415,312</u>	<u>5,484,486</u>	<u>5,333,989</u>
OPERATING INCOME BEFORE DEPRECIATION & AMORTIZATION										
AMORTIZATION	\$ 476,418	\$ 410,501	\$ 737,807	\$ 549,248	\$ 592,480	\$ 386,472	\$ 702,272	\$ 525,620	\$ 501,014	\$ 406,443
LESS: DEPRECIATION	3,643,867	3,510,733	3,319,171	3,148,163	3,053,364	2,855,601	2,889,942	2,730,172	2,381,018	2,282,141
AMORTIZATION	<u>-</u>	<u>-</u>	<u>13,500</u>	<u>13,500</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>
OPERATING LOSS	\$ (3,167,449)	\$ (3,100,232)	\$ (2,594,864)	\$ (2,612,415)	\$ (2,474,385)	\$ (2,482,630)	\$ (2,201,171)	\$ (2,218,053)	\$ (1,893,505)	\$ (1,889,199)
OTHER NON-OPERATING REVENUES (EXPENSES)	<u>967,567</u>	<u>917,552</u>	<u>1,253,169</u>	<u>936,264</u>	<u>809,692</u>	<u>781,318</u>	<u>878,429</u>	<u>557,579</u>	<u>619,715</u>	<u>482,993</u>
LOSS BEFORE CAPITAL CONTRIBUCTIONS	\$ (2,199,882)	\$ (2,182,680)	\$ (1,341,695)	\$ (1,676,151)	\$ (1,664,693)	\$ (1,701,312)	\$ (1,322,742)	\$ (1,660,474)	\$ (1,273,790)	\$ (1,406,206)
CAPITAL CONTRIBUTIONS	<u>18,148,327</u>	<u>7,859,918</u>	<u>4,821,258</u>	<u>3,640,905</u>	<u>6,774,016</u>	<u>7,485,388</u>	<u>4,330,262</u>	<u>3,067,094</u>	<u>7,646,827</u>	<u>2,672,004</u>
CHANGE IN NET POSITION	<u>\$ 15,948,445</u>	<u>\$ 5,677,238</u>	<u>\$ 3,479,563</u>	<u>\$ 1,964,754</u>	<u>\$ 5,109,323</u>	<u>\$ 5,784,076</u>	<u>\$ 3,007,520</u>	<u>\$ 1,406,620</u>	<u>\$ 6,373,037</u>	<u>\$ 1,265,798</u>
NET POSITION AT YEAR-END										
NET INVESTMENT IN CAPITAL ASSETS	\$ 81,727,565	\$ 65,756,371	\$ 61,201,867	\$ 58,312,190	\$ 56,595,863	\$ 50,301,978	\$ 45,438,936	\$ 43,473,265	\$ 40,568,936	\$ 35,041,899
RESTRICTED	1,107,755	1,166,024	1,110,583	1,027,835	925,791	999,890	809,068	621,170	679,096	671,669
UNRESTRICTED	<u>5,229,362</u>	<u>5,193,842</u>	<u>4,190,604</u>	<u>3,683,466</u>	<u>3,537,083</u>	<u>4,647,546</u>	<u>3,917,334</u>	<u>3,063,383</u>	<u>4,503,166</u>	<u>3,664,593</u>
TOTAL NET POSITION	<u>\$ 88,064,682</u>	<u>\$ 72,116,237</u>	<u>\$ 66,503,054</u>	<u>\$ 63,023,491</u>	<u>\$ 61,058,737</u>	<u>\$ 55,949,414</u>	<u>\$ 50,165,338</u>	<u>\$ 47,157,818</u>	<u>\$ 45,751,198</u>	<u>\$ 39,378,161</u>

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 2:
Changes in Cash and Cash Equivalents
Last Ten Fiscal Years (Unaudited)

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>
Cash Flows From Operating Activities										
Cash received from customers	\$ 6,239,332	\$ 6,202,306	\$ 5,971,326	\$ 5,753,038	\$ 5,702,985	\$ 5,796,913	\$ 6,140,734	\$ 5,883,726	\$ 6,043,541	\$ 5,667,282
Cash payments to suppliers	(2,154,637)	(2,033,952)	(1,868,890)	(1,955,865)	(1,163,492)	(1,952,309)	(1,563,139)	(2,119,801)	(2,276,146)	(2,121,032)
Cash payments to employees	(2,366,329)	(2,322,415)	(2,425,125)	(2,254,986)	(2,411,072)	(2,345,715)	(2,260,532)	(1,998,860)	(2,108,696)	(2,035,227)
Cash paid out for employee benefits	(1,075,840)	(1,072,505)	(1,060,836)	(1,024,075)	(1,055,427)	(1,053,814)	(1,064,303)	(970,908)	(843,857)	(810,844)
Cash payments for insurance	<u>(175,654)</u>	<u>(236,705)</u>	<u>(237,684)</u>	<u>(208,614)</u>	<u>(249,790)</u>	<u>(222,280)</u>	<u>(249,566)</u>	<u>(293,462)</u>	<u>(248,434)</u>	<u>(275,004)</u>
Net Cash Provided (Used) by Operating Activities	<u>466,872</u>	<u>536,729</u>	<u>378,791</u>	<u>309,498</u>	<u>823,204</u>	<u>222,795</u>	<u>1,003,194</u>	<u>500,695</u>	<u>566,408</u>	<u>425,175</u>
Cash Flows From Capital and Related Financing Activities										
Acquisition and Construction of Capital Assets	(18,737,335)	(7,111,372)	(5,320,481)	(4,172,542)	(8,648,385)	(7,419,623)	(4,216,586)	(4,982,119)	(9,388,510)	(5,108,733)
Proceeds from Sale of Assets	8,697	9,745	29,485	-	-	-	-	-	-	-
Proceeds from Sale of Land to State of Tennessee	-	-	241,712	-	-	-	-	-	-	-
Capital Grants and Contributions received	19,055,924	7,337,108	4,321,741	3,859,505	6,897,168	6,967,113	3,617,479	4,402,861	7,071,240	3,200,256
PFC Funds Received	840,975	792,157	913,460	862,463	808,349	795,705	836,158	530,007	597,143	615,655
CFC Funds Received	341,898	381,681	379,825	355,410	322,865	275,044	280,364	295,764	319,116	291,650
Interest Paid	(182,939)	(263,969)	(296,105)	(325,425)	(352,352)	(376,377)	(399,533)	(422,178)	(442,408)	(462,805)
Cost of Issuing Debt	(73,202)	-	-	-	-	-	-	-	-	-
Principal paid on long-term debt	<u>(1,375,000)</u>	<u>(785,000)</u>	<u>(750,000)</u>	<u>(720,000)</u>	<u>(695,000)</u>	<u>(670,000)</u>	<u>(645,000)</u>	<u>(615,000)</u>	<u>(595,000)</u>	<u>(575,000)</u>
Net Cash Provided (Used for) Capital and Related Financing Activities	<u>(120,982)</u>	<u>360,350</u>	<u>(480,363)</u>	<u>(140,589)</u>	<u>(1,667,355)</u>	<u>(428,138)</u>	<u>(527,118)</u>	<u>(790,665)</u>	<u>(2,438,419)</u>	<u>(2,038,977)</u>
Cash Flows From Investing Activities										
Purchase of Investments	(17,793)	(459,224)	(12,019)	(330,337)	(35,325)	(1,720,370)	(518,499)	(7,714)	(9,084)	(8,762)
Sales of Investments	-	-	-	309,564	421,328	614,584	-	-	-	-
Interest Received	21,284	21,939	17,660	31,380	69,405	65,844	159,649	163,644	177,101	135,378
Cash Paid for Management Fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>(480)</u>	<u>(480)</u>	<u>(480)</u>	<u>(548)</u>	<u>(667)</u>	<u>(837)</u>	<u>(4,009)</u>
Net Cash Provided By (Used for) Investing Activities	<u>3,491</u>	<u>(437,285)</u>	<u>5,641</u>	<u>10,127</u>	<u>454,928</u>	<u>(1,040,422)</u>	<u>(359,398)</u>	<u>155,263</u>	<u>167,180</u>	<u>122,607</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>349,381</u>	<u>459,794</u>	<u>(95,931)</u>	<u>179,036</u>	<u>(389,223)</u>	<u>(1,245,765)</u>	<u>116,678</u>	<u>(134,707)</u>	<u>(1,704,831)</u>	<u>(1,491,195)</u>
Cash and Cash Equivalents at Beginning of Year	<u>3,303,466</u>	<u>2,843,672</u>	<u>2,939,603</u>	<u>2,760,567</u>	<u>3,149,790</u>	<u>4,395,555</u>	<u>4,278,877</u>	<u>4,413,584</u>	<u>6,118,415</u>	<u>7,609,610</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,652,847</u>	<u>\$ 3,303,466</u>	<u>\$ 2,843,672</u>	<u>\$ 2,939,603</u>	<u>\$ 2,760,567</u>	<u>\$ 3,149,790</u>	<u>\$ 4,395,555</u>	<u>\$ 4,278,877</u>	<u>\$ 4,413,584</u>	<u>\$ 6,118,415</u>

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
Table 3:
Restricted Assets
Last Ten Fiscal Years (Unaudited)

<u>Year</u>	<u>Bond</u> <u>Escrow</u>	<u>Construction</u> <u>Escrow</u>	<u>Retainage</u> <u>Escrows</u>	<u>PFC</u> <u>Funds</u>	<u>CFC</u> <u>Funds</u>	<u>GRAND</u> <u>TOTAL</u>
2014	\$ 383,010	\$ -	\$ 725,899	\$ 796,617	\$ 311,138	\$ 2,216,664
2013	\$ 1,058,760	\$ -	\$ 402,559	\$ 898,330	\$ 267,694	\$ 2,627,343
2012	\$ 1,058,760	\$ 104,006	\$ 160,161	\$ 898,414	\$ 212,169	\$ 2,433,510
2011	\$ 1,058,760	\$ 104,006	\$ -	\$ 819,966	\$ 207,869	\$ 2,190,601
2010	\$ 1,058,760	\$ 101,594	\$ -	\$ 754,568	\$ 171,223	\$ 2,086,145
2009	\$ 1,058,760	\$ 75,345	\$ 8,080	\$ 806,920	\$ 192,970	\$ 2,142,075
2008	\$ 1,061,800	\$ 291,769	\$ 137,210	\$ 566,711	\$ 242,357	\$ 2,299,847
2007	\$ 1,061,800	\$ 277,946	\$ 134,622	\$ 362,968	\$ 258,202	\$ 2,095,538
2006	\$ 1,067,754	\$ 206,043	\$ 128,645	\$ 423,709	\$ 255,387	\$ 2,081,538
2005	\$ 1,067,754	\$ 2,114,000	\$ 265,368	\$ 438,035	\$ 233,634	\$ 4,118,791

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 4:
Principal Revenue Sources and Revenue Per Enplaned Passenger
Last Ten Fiscal Years (Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Airline Revenues:										
Landing Fees *	\$ 547,043	\$ 533,275	\$ 514,771	\$ 497,944	\$ 516,107	\$ 593,664	\$ 613,527	\$ 590,577	\$ 504,567	\$ 444,625
Terminal Rents	947,909	926,884	815,561	788,539	752,467	802,421	775,683	775,683	737,410	691,924
Security Reimbursements	576,525	561,193	556,313	553,268	560,580	568,086	609,186	573,096	553,548	532,151
Jetway Fees	8,790	11,430	27,795	19,410	8,230	5,400	7,275	9,675	6,675	450
Other	<u>2,640</u>	<u>2,640</u>	<u>5,052</u>	<u>5,089</u>	<u>4,774</u>	<u>7,827</u>	<u>8,554</u>	<u>12,599</u>	<u>13,061</u>	<u>9,451</u>
Total Airline Revenue	\$ 2,082,907	\$ 2,035,422	\$ 1,919,492	\$ 1,864,250	\$ 1,842,158	\$ 1,977,398	\$ 2,014,225	\$ 1,961,630	\$ 1,815,261	\$ 1,678,601
Percent of Total Operating Revenues	33.2%	33.5%	31.2%	31.6%	32.4%	34.0%	32.9%	33.0%	30.3%	29.2%
Non-Airline Revenues										
Parking	\$ 1,895,843	\$ 1,868,305	\$ 1,945,375	\$ 1,858,862	\$ 1,704,348	\$ 1,782,756	\$ 1,878,917	\$ 1,832,702	\$ 1,862,406	\$ 1,660,578
Percent of Total Operating Revenues	30%	31%	32%	32%	30%	31%	31%	31%	31%	29%
Rental Car	895,804	822,556	873,378	792,309	764,671	679,626	840,589	777,119	726,233	740,435
Other	<u>1,406,458</u>	<u>1,354,056</u>	<u>1,422,138</u>	<u>1,380,843</u>	<u>1,382,383</u>	<u>1,378,664</u>	<u>1,383,600</u>	<u>1,369,482</u>	<u>1,581,600</u>	<u>1,660,818</u>
Total Non-Airline Revenues	\$ 4,198,105	\$ 4,044,917	\$ 4,240,891	\$ 4,032,014	\$ 3,851,402	\$ 3,841,046	\$ 4,103,106	\$ 3,979,303	\$ 4,170,239	\$ 4,061,831
Percent of Total Operating Revenues	66.8%	66.5%	68.8%	68.4%	67.6%	66.0%	67.1%	67.0%	69.7%	70.8%
Total Operating Revenues	\$ 6,281,012	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,933	\$ 5,985,500	\$ 5,740,432
Percent of Total Revenues	83.3%	83.7%	79.9%	82.3%	83.0%	83.3%	82.7%	85.6%	84.8%	84.4%
Nonoperating Revenues										
Passenger Facility Charges	\$ 883,130	\$ 771,260	\$ 884,120	\$ 879,296	\$ 790,497	\$ 843,482	\$ 832,657	\$ 538,856	\$ 583,092	\$ 628,543
Customer Facility Charges	341,898	381,681	379,825	355,410	307,017	253,729	291,228	295,337	316,526	297,554
Interest Income	21,284	21,939	17,660	31,380	69,405	65,844	159,649	163,644	177,101	135,378
Sale of Land to State of Tennessee	-	-	241,712	-	-	-	-	-	-	-
Proceeds on Sale of Assets	<u>8,697</u>	<u>9,745</u>	<u>29,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Nonoperating Revenues	\$ 1,255,009	\$ 1,184,625	\$ 1,552,802	\$ 1,266,086	\$ 1,166,919	\$ 1,163,055	\$ 1,283,534	\$ 997,837	\$ 1,076,719	\$ 1,061,475
Percent of Total Revenues	16.7%	16.3%	20.1%	17.7%	17.0%	16.7%	17.3%	14.4%	15.2%	15.6%
Total Revenues	<u>\$ 7,536,021</u>	<u>\$ 7,264,964</u>	<u>\$ 7,713,185</u>	<u>\$ 7,162,350</u>	<u>\$ 6,860,479</u>	<u>\$ 6,981,499</u>	<u>\$ 7,400,865</u>	<u>\$ 6,938,770</u>	<u>\$ 7,062,219</u>	<u>\$ 6,801,907</u>
Enplaned Passengers (excluding charters)	202,935	203,161	221,681	214,669	198,995	205,547	210,244	202,866	224,913	234,238
Airline Revenue Per enplaned passenger	<u>\$ 10.26</u>	<u>\$ 10.02</u>	<u>\$ 8.66</u>	<u>\$ 8.68</u>	<u>\$ 9.26</u>	<u>\$ 9.62</u>	<u>\$ 9.58</u>	<u>\$ 9.67</u>	<u>\$ 8.07</u>	<u>\$ 7.17</u>
Parking Revenue per enplaned passenger	<u>\$ 9.34</u>	<u>\$ 9.20</u>	<u>\$ 8.78</u>	<u>\$ 8.66</u>	<u>\$ 8.56</u>	<u>\$ 8.67</u>	<u>\$ 8.94</u>	<u>\$ 9.03</u>	<u>\$ 8.28</u>	<u>\$ 7.09</u>
Total Revenue Per enplaned passenger	<u>\$ 37.14</u>	<u>\$ 35.76</u>	<u>\$ 34.79</u>	<u>\$ 33.36</u>	<u>\$ 34.48</u>	<u>\$ 33.97</u>	<u>\$ 35.20</u>	<u>\$ 34.20</u>	<u>\$ 31.40</u>	<u>\$ 29.04</u>

Source: Audited Financial Statements
Tri-Cities Airport Authority Activity Reports

Tri-Cities Airport Authority
TABLE 5:
Revenue Rates
Last Ten Fiscal Years (Unaudited)

	SIGNATORY AIRLINES RATES AND CHARGES									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Landing Fees (per 1,000 lbs. MGLW)	\$ 2.25	\$ 2.17	\$ 1.94	\$ 1.94	\$ 1.94	\$ 1.94	\$ 1.85	\$ 1.85	\$ 1.57	\$ 1.31
Terminal Rental Rates (per square foot)	\$ 33.92	\$ 33.01	\$ 32.20	\$ 31.11	\$ 40.52	\$ 40.52	\$ 38.74	\$ 38.74	\$ 36.80	\$ 34.07
Terminal Aircraft Parking Apron Fee, per turn	\$ 10.77	\$ 9.02	\$ 7.47	\$ 6.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Jetway Use Fee (per use)	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 20.00	\$ 20.00
Annual Security Reimbursement *	\$ 576,525	\$ 561,193	\$ 556,316	\$ 553,268	\$ 560,580	\$ 568,086	\$ 609,186	\$ 558,127	\$ 553,548	\$ 532,151

* Security Reimbursement is set at fifty percent of the annual Public Safety operating budget.

	Parking Rates									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Long-Term Parking - Daily **	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 7.00
	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min *	\$1 per 30 min *	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour
Short-Term Parking - Daily	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 8.00
- Incremental	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min

** - \$1.00 per hour after the first day up to the full day rate.

Source: Tri-Cities Airport Authority Lease Data

Tri-Cities Airport Authority
TABLE 6:
Enplaned Passengers
Last Ten Fiscal Years (Unaudited)

Airline	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Allegiant Air	30,044	31,460	30,879	33,181	31,198	38,499	26,020	1,881	-	-
US Airways Express (Air Wisconsin)	3,818	9,327	13,633	443	-	-	460	288	2,711	-
American Connection/Eagle	-	-	11,796	19,004	-	-	-	-	282	6,262
Delta (Atlantic Southeast Airlines)	-	-	60,052	90,866	87,223	64,576	53,075	40,146	63,159	75,160
Delta (Atlantic Coast)	-	-	-	-	-	-	-	-	-	9,639
Delta (Chautauqua)	-	-	-	-	1,178	17,709	30,864	41,066	25,267	6,518
Delta (Comair)	-	-	-	7,027	1,232	2,233	3,908	831	24,649	38,988
Delta (Freedom)	-	-	-	67	10,969	4,010	11,586	32,297	10,092	-
Delta (Pinnacle)	-	-	144	8,558	3,611	-	-	-	-	-
US Airways Express (Mesa Jet)	660	160	459	366	602	671	959	1,065	21,801	38,357
Northwest Airlin	-	-	-	-	1,351	22,467	22,776	23,689	27,683	27,790
Sky West	-	-	-	-	6,162	-	-	-	-	-
US Airways Express (Piedmont)	45,317	45,251	19,151	24,896	29,336	33,877	38,198	33,810	31,220	27,203
US Airways Express (PSA Airlines)	16,732	8,137	28,476	30,261	26,133	21,505	22,398	27,793	18,049	246
US Airways Express (Trans States)	-	-	-	-	-	-	-	-	-	4,075
DELTA (XJT Express Jet)	106,364	108,826	57,091	-	-	-	-	-	-	-
Sub-Total Air Carriers	202,935	203,161	221,681	214,669	198,995	205,547	210,244	202,866	224,913	234,238
Charters	1,995	1,303	1,696	2,673	3,110	4,884	2,837	2,429	2,083	2,496
Total	204,930	204,464	223,377	217,342	202,105	210,431	213,081	205,295	226,996	236,734

Source: Tri-Cities Airport Authority Traffic Reports.

Tri-Cities Airport Authority
TABLE 7a:
Airline Landed Weights (000's Omitted)
Last Ten Fiscal Years (Unaudited)

<u>Air Carriers</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Air Wisconsin	5,264	11,327	19,176	1,833	141	-	1,786	893	5,264	-
Allegiant Airlines	28,653	30,913	31,075	34,062	32,930	42,019	28,929	1,814	-	-
American Eagle/ Conn	-	-	14,713	28,308	-	-	-	-	421	10,240
Atlantic Coast	-	-	-	-	-	-	-	-	-	15,291
Atlantic Southeast	-	-	68,407	113,196	115,660	93,915	71,061	44,709	76,124	91,836
Chautauqua Airlines	-	-	-	-	1,833	27,449	45,249	62,245	35,603	8,925
Comair	-	-	-	9,447	1,504	3,619	6,392	1,175	36,599	60,630
Freedom	-	-	-	170	15,233	5,489	14,595	40,593	11,829	-
Mesa Jet	809	662	1,103	441	956	1,544	1,360	1,387	29,075	56,449
Northwest Airlink	-	-	-	-	1,625	43,087	41,411	41,149	41,009	47,947
Piedmont	52,157	55,311	28,597	35,913	41,721	51,299	54,177	49,140	43,816	39,842
Pinnacle	-	-	141	15,275	6,909	-	-	-	-	-
PSA Airlines	21,572	12,198	38,458	46,132	39,263	38,825	42,720	50,563	28,411	516
Sky West	-	-	-	-	9,024	-	-	-	-	-
Trans State	-	-	-	-	-	-	-	-	-	8,015
Delta	134,675	135,330	67,220	-	-	-	-	-	-	-
Subtotal	243,130	245,741	268,890	284,777	266,799	307,246	307,680	293,668	308,151	339,691
Charters	5,059	3,436	4,297	7,807	7,702	10,070	7,082	6,361	5,181	6,384
Total Air Carriers	248,189	249,177	273,187	292,584	274,501	317,316	314,762	300,029	313,332	346,075

Source: Tri-Cities Airport Activity Reports

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 7b:
Cargo Landed Weights
Last Ten Fiscal Years (Unaudited)

Cargo Carriers	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
ABX (DHL)/Airborne	-	-	-	-	-	21,163	50,945	51,219	50,940	50,956
Flight Express	-	-	-	408	612	5,777	8,359	8,359	8,359	8,359
Quest Diagnostic	-	-	1,188	1,296	1,296	1,296	-	-	-	-
Kalitta	-	-	-	-	-	-	-	-	9	751
Martinaire (DHL)	-	-	-	-	-	-	-	-	-	2,108
Solstas	1,224	918	-	-	-	-	-	-	-	-
Other	367.7	82	1,693	734	4,131	80	1,647	1,729	2,677	4,963
	1,592	1,000	2,881	2,438	6,039	28,316	60,951	61,307	61,985	67,137
TOTAL LANDED WEIGHTS	249,781	250,177	276,068	295,022	280,540	345,632	375,713	361,336	375,317	413,212

Source: Tri-Cities Airport Activity Report

Tri-Cities Airport Authority
TABLE 8:
Aircraft Movements Summary (Takeoff and Landing)
Last Ten Fiscal Years (Unaudited)

Fiscal Year	Air Carrier	Charters	Cargo Carriers	General Aviation	Air Taxi	Military	Total
2014	8,998	189	494	33,683	2,630	488	46,482
2013	9,538	125	362	34,533	2,584	409	47,551
2012	10,927	136	520	39,121	1,775	509	52,988
2011	11,702	204	828	35,868	1,277	920	50,799
2010	10,928	183	1,056	37,372	1,347	687	51,573
2009	13,688	278	3,130	35,705	646	501	53,948
2008	14,384	186	4,592	41,681	299	398	61,540
2007	14,828	251	4,628	45,483	-	439	65,629
2006	15,188	142	4,678	51,625	347	725	72,705
2005	18,270	194	5,304	59,017	230	583	83,598

Source: Air Traffic Reports

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 9:
Air Cargo, Freight and Mail
Last Ten Fiscal Years (Unaudited)
(amounts expressed in pounds)

Fiscal Year	Air Carriers	Cargo Carriers	Sub-total	Mail	Total
2014	52,449	21,698	74,147	649	74,796
2013	53,739	5,166	58,905	45	58,950
2012	29,557	124,384	153,941	768	154,709
2011	31,489	97,570	129,059	2,479	131,538
2010	45,384	327,030	372,414	5,114	377,528
2009	100,613	5,898,721	5,999,334	1,593	6,000,927
2008	124,357	16,263,784	16,388,141	239	16,388,380
2007	130,349	10,290,014	10,420,363	1,311	10,421,674
2006	139,507	8,337,359	8,476,866	911	8,477,777
2005	175,998	3,593,986	3,769,984	2,448	3,772,432

Source: Air Traffic Reports

Tri-Cities Airport Authority
TABLE 10:
Debt Service Coverage
Last Ten Fiscal Years (Unaudited)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 6,281,012	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,932	\$ 5,985,500	\$ 5,740,432
Operating Expenses	<u>\$ 5,804,594</u>	<u>\$ 5,669,838</u>	<u>\$ 5,422,576</u>	<u>\$ 5,347,016</u>	<u>\$ 5,101,080</u>	<u>\$ 5,431,972</u>	<u>\$ 5,415,059</u>	<u>\$ 5,415,312</u>	<u>\$ 5,484,486</u>	<u>\$ 5,333,989</u>
Operating Income Before Adjustments	476,418	410,501	737,807	549,248	592,480	386,472	702,272	525,620	501,014	406,443
Other Income	1,255,009	1,184,625	1,552,802	1,266,086	1,166,919	1,163,055	1,283,534	997,837	1,076,719	1,061,475
Other Expenses Net of Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>	<u>480</u>	<u>480</u>	<u>548</u>	<u>12,827</u>	<u>9,227</u>	<u>110,191</u>
Net Revenues	<u>\$ 1,731,427</u>	<u>\$ 1,595,126</u>	<u>\$ 2,290,609</u>	<u>\$ 1,814,854</u>	<u>\$ 1,758,919</u>	<u>\$ 1,549,047</u>	<u>\$ 1,985,258</u>	<u>\$ 1,510,630</u>	<u>\$ 1,568,506</u>	<u>\$ 1,357,727</u>
Debt Service on airport revenue bonds										
Principal	\$ 1,375,000	\$ 785,000	\$ 750,000	\$ 720,000	\$ 695,000	\$ 670,000	\$ 645,000	\$ 615,000	\$ 595,000	\$ 575,000
Interest	287,442	263,969	295,625	325,425	352,351	376,376	399,533	427,431	447,777	468,291
Total Debt Service	<u>\$ 1,662,442</u>	<u>\$ 1,048,969</u>	<u>\$ 1,045,625</u>	<u>\$ 1,045,425</u>	<u>\$ 1,047,351</u>	<u>\$ 1,046,376</u>	<u>\$ 1,044,533</u>	<u>\$ 1,042,431</u>	<u>\$ 1,042,777</u>	<u>\$ 1,043,291</u>
Coverage ratio * (Revenues/Debt Service)	1.04	1.52	2.19	1.74	1.68	1.48	1.90	1.45	1.50	1.30
* Does not include amounts held in bond reserves	\$ 383,010	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,061,800	\$ 1,061,800	\$ 1,067,754	\$ 1,067,754

Source: Tri-Cities Airport Authority Activity Reports

Tri-Cities Airport Authority
TABLE 11:
Ratios of Outstanding Debt and Debt Service
Last Ten Fiscal Years (Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Outstanding Debt Per Enplaned Passenger										
Outstanding Debt:										
Airport Revenue Bonds	\$ 2,975,000	\$ 4,350,000	\$ 5,135,000	\$ 5,885,000	\$ 6,605,000	\$ 7,300,000	\$ 7,970,000	\$ 8,615,000	\$ 9,230,000	\$ 9,825,000
Enplaned Passengers	204,930	204,464	223,377	217,342	202,014	210,431	213,081	205,295	226,996	236,734
Outstanding Debt Per Enplaned Passenger	\$ 15	\$ 21	\$ 23	\$ 27	\$ 33	\$ 35	\$ 37	\$ 42	\$ 41	\$ 42
Debt Service										
Principal	1,375,000	785,000	750,000	720,000	695,000	670,000	645,000	615,000	595,000	575,000
Interest	287,442	263,969	295,625	325,425	352,351	376,376	399,533	427,431	447,777	468,291
Total Debt Service	1,662,442	1,048,969	1,045,625	1,045,425	1,047,351	1,046,376	1,044,533	1,042,431	1,042,777	1,043,291
Operating expenses	\$ 5,804,594	\$ 5,617,441	\$ 5,422,576	\$ 5,347,016	\$ 5,101,080	\$ 5,431,972	\$ 5,415,059	\$ 5,415,312	\$ 5,484,486	\$ 5,333,989
Total	\$ 7,467,036	\$ 6,666,410	\$ 6,468,201	\$ 6,392,441	\$ 6,148,431	\$ 6,478,348	\$ 6,459,592	\$ 6,457,743	\$ 6,527,263	\$ 6,377,280
Ratio of debt service to Total Expenses	22.3%	15.7%	16.2%	16.4%	17.0%	16.2%	16.2%	16.1%	16.0%	16.4%
Debt Service per Enplaned Passenger	\$ 8.11	\$ 5.13	\$ 4.68	\$ 4.81	\$ 5.18	\$ 4.97	\$ 4.90	\$ 5.08	\$ 4.59	\$ 4.41

Source: Audited Financial Statements

Tri-Cities Airport Authority
TABLE 12:
Passenger Facility Charges
Last Ten Fiscal Years (Unaudited)

Airline	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Allegiant Air	\$ 147,833	\$ 127,838	\$ 145,850	\$ 158,203	\$ 160,690	\$ 171,223	\$ 92,092	\$ -	\$ -	\$ -
Delta	442,349	406,398	430,135	391,037	393,130	320,918	387,486	\$ 291,228	\$ 314,364	\$ 340,036
US Airways	256,055	221,056	229,087	211,119	204,014	212,194	238,354	156,214	165,297	170,816
Northwest	-	-	-	-	4,328	62,851	88,540	54,197	68,139	73,406
American	9,207	15,968	54,724	70,835	2,280	-	-	833	-	15,923
United	-	-	24,324	20,162	18,408	-	-	-	-	20,400
Other	<u>27,686</u>	<u>-</u>	<u>-</u>	<u>27,940</u>	<u>7,647</u>	<u>76,296</u>	<u>26,185</u>	<u>36,384</u>	<u>35,292</u>	<u>7,962</u>
Total PFC Revenue	\$ 883,130	\$ 771,260	\$ 884,120	\$ 879,296	\$ 790,497	\$ 843,482	\$ 832,657	\$ 538,856	\$ 583,092	\$ 628,543
Interest Earned	<u>2,550</u>	<u>3,625</u>	<u>5,407</u>	<u>9,690</u>	<u>14,211</u>	<u>11,536</u>	<u>10,142</u>	<u>10,077</u>	<u>11,063</u>	<u>6,270</u>
Total PFC Related Revenue	<u>\$ 885,680</u>	<u>\$ 774,885</u>	<u>\$ 889,527</u>	<u>\$ 888,986</u>	<u>\$ 804,708</u>	<u>\$ 855,018</u>	<u>\$ 842,799</u>	<u>\$ 548,933</u>	<u>\$ 594,155</u>	<u>\$ 634,813</u>

Enplaned Passengers	204,930	204,464	221,681	217,342	202,014	210,431	213,081	205,295	226,996	236,734
% of Passengers	98.2%	85.9%	90.8%	92.2%	89.1%	91.3%	89.0%	90.8%	88.9%	91.9%

Source: PFC Quarterly Reports

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 13:
Customer Facility Charges
Last Ten Fiscal Years (Unaudited)

Rental Car	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Alamo	\$ 28,644	\$ 35,001	\$ 31,806	\$ 33,237	\$ 28,413	\$ 21,413	\$ 22,484	\$ 22,701	\$ 21,609	\$ 18,938
Avis	60,917	65,043	68,782	83,511	79,902	66,276	80,675	85,176	90,804	88,825
Budget	58,490	69,696	71,608	78,903	72,729	67,508	64,267	59,374	63,441	51,221
Enterprise (1)	51,854	62,235	58,234	21,222	-	-	-	-	-	-
Hertz	52,068	57,906	67,635	73,611	76,833	61,866	79,555	87,059	95,508	94,649
National	89,925	91,800	81,760	64,926	49,140	36,666	44,247	41,027	45,164	42,321
Total CFC Revenue	\$ 341,898	\$ 381,681	\$ 379,825	\$ 355,410	\$ 307,017	\$ 253,729	\$ 291,228	\$ 295,337	\$ 316,526	\$ 295,954
Interest Earned	782	819	1,105	1,522	2,706	4,451	5,361	6,486	6,548	2,265
Total CFC Related Revenue	<u>\$ 342,680</u>	<u>\$ 382,500</u>	<u>\$ 380,930</u>	<u>\$ 356,932</u>	<u>\$ 309,723</u>	<u>\$ 258,180</u>	<u>\$ 296,589</u>	<u>\$ 301,823</u>	<u>\$ 323,074</u>	<u>\$ 298,219</u>

Amount per contract	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00
Debt Service Payments(2)	\$ -	\$ 298,290	\$ 299,086	\$ 299,159	\$ 302,201	\$ 301,326	\$ 303,797	\$ 298,652	\$ 300,359	\$ 252,182

(1) Prior to 2011 Enterprise was located off of the airport and, therefore, was not required to charge the Customer Facility Charge.

(2) 2014 refinancing arrangement does not include pledging of CFC revenues to support debt service.

Source: Audited Financial Statements

Tri-Cities Airport Authority
TABLE 14:
Demographic Data - Population
Last Ten Calendar Years (Unaudited)

Calendar Year	Air Trade Area	Tennessee
2013	593,480	6,495,978
2012	585,229	6,456,243
2011	586,168	6,403,353
2010	584,319	6,346,105
2009	576,196	6,306,019
2008	573,265	6,214,888
2007	569,644	6,156,719
2006	565,722	6,038,803
2005	493,023	5,962,959
2004	487,990	5,900,962

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 15:
Demographic Data - Per Capita Income
Last Ten Calendar Years (Unaudited)

Calendar Year	Air Trade Area	Tennessee
2013	35,264	39,558
2012	34,820	39,002
2011	33,706	37,151
2010	31,768	35,426
2009	31,075	34,439
2008	31,377	35,080
2007	30,411	34,181
2006	28,949	33,125
2005	27,412	31,736
2004	26,733	30,933

Source: US Dept. of Commerce Bureau of Economic Analysis;
Johnson City-Kingsport-Bristol TN-VA (CSA) (GeoFips 89304)
for Air Trade Area.

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 16:
Demographic Data - Unemployment Rate Percentage
Last Ten Calendar Years (Unaudited)

Calendar Year	Air Trade Area	Tennessee
2013	7.6%	8.2%
2012	7.7%	8.1%
2011	7.6%	9.2%
2010	8.5%	9.8%
2009	9.3%	10.8%
2008	7.0%	6.7%
2007	4.7%	4.8%
2006	4.7%	5.2%
2005	5.4%	5.6%
2004	5.5%	5.4%

Source: US Bureau of Labor Statistics

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 17:
Demographic Data
Top 10 Employers in Region (Unaudited)

Company	2013			2004			Industry
	Rank	Employees	Percentage	Rank	Employees	Percentage	
Mountain States Health Alliance	1	8,995	24.0%	3	3,541	13.3%	Health Care
Eastman Chemical Company	2	6,728	17.9%	1	7,400	27.8%	Chemical, Fibers & Plastics
Wellmont Health Systems	3	6,225	16.6%	2	4,200	15.8%	Health Care
K-VA-T Food Stores, Inc.	4	5,201	13.9%		-	-	Retail/ Supermarkets
East Tennessee State University	5	2,350	6.3%	5	2,012	7.6%	Higher Education
James H. Quillen VA Medical Center	6	2,188	5.8%	8	1,259	4.7%	Health Care
Citigroup	7	1,700	4.5%	6	1,817	6.8%	Customer Service Call Center
Sullivan County Dept. of Education	8	1,620	4.3%		-	-	Public Education
Hawkins County Schools	9	1,300	3.5%		-	-	Public Education
Washington County Schools	10	1,200	3.2%		-	-	Public Education
Bristol Compressors		-	-	4	2,500	9.4%	Manufacturing Compressors
King Pharmaceuticals		-	-	7	1,534	5.8%	Pharmaceutical Sales
American Water Heater Group		-	-	9	1,200	4.5%	Water Heaters
AFG Industries		-	-	10	1,160	4.4%	Glass

Source: The 2012 Business Journal 'The Book of Lists'

Tri-Cities Airport Authority
TABLE 18:
Employees by Department *
Last Ten Fiscal Years (Unaudited)

Fiscal Years Ending June 30

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Maintenance	9	9	9	9	9	9	8	9	9	9
Access Control	0	0	0	1	1	1	1	1	1	1
Public Safety	15	15	15	14	13	15	16	16	14	16
Janitorial	6	6	6	6	6	9	10	9	9	10
Airport Services	1	1	1	1	2	2	3	3	3	3
Marketing	2	2	2	3	3	3	3	3	3	3
Air Cargo & Trade Development	1	1	1	1	1	1	1	2	3	3
Ground Handling	0	1	1	1	1	1	1	0	0	0
Administration	<u>9</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>10</u>
Total Full-Time Employees	<u>43</u>	<u>43</u>	<u>44</u>	<u>45</u>	<u>45</u>	<u>51</u>	<u>53</u>	<u>52</u>	<u>52</u>	<u>55</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>			
Part-Time & Interim Employees										
Airline Services	8	9	8	7	10	11	11			
Access Control	7	7	6	6	6	6	6			
Airport Services	1	1	1	2	1	1	1			
Maintenance	0	0	0	0	0	0	2			
Public Safety	0	0	2	2	2	0	0			
Janitorial	4	4	3	3	1	0	0			
Admin	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>			
Total Part-Time Employees	<u>21</u>	<u>23</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>18</u>	<u>20</u>			

* - Based on current active employees as of June 30, 2014

Source: Tri-Cities Airport Authority Payroll Records

Tri-Cities Airport Authority
TABLE 19:
Insurance in Force (Unaudited)
June 30, 2014

Type of Policy	Policy Insurer	Expiration Date	Policy Limit	Risk Coverage
Airport Liability	ACE	3/31/2015	\$50,000,000	General Liability
Excess Liability	ACE	3/31/2015	\$25,000,000	Over \$1M for Auto & 1M Employment Liability
Automobile	Cincinnati Ins. Co.	3/31/2015	\$1,000,000	Bodily Injury and Property Damage, Comp/Collision, Non-owned vehicles
Property	Cincinnati Ins. Co.	3/31/2015	\$36,110,316	Buildings , contents, flood, earthquake
Personal Property	Cincinnati Ins. Co.	3/31/2015	\$2,009,561	
Business Income	Cincinnati Ins. Co.	3/31/2015	\$1,000,000	Loss of Business
Employee Liability	Cincinnati Ins. Co.	3/31/2015	\$1,000,000	Employee Benefits Liability
Equipment	Cincinnati Ins. Co.	3/31/2015	\$2,674,814	
Public Officials	Darwin Select	3/31/2015	\$5,000,000	Airport Commissioners
	Darwin Select	3/31/2015	\$5,000,000	Employment Practices
Crime/Fidelity	Cincinnati Ins. Co.	3/31/2015	\$250,000	Faithful Performance Computer Fraud
Worker's Comp	USAIG/Liberty Mutual	3/31/2015	By Law	Employer's liability
	USAIG/Liberty Mutual	3/31/2015		Employee bodily injury
Health/Medical	United Healthcare	11/30/2014		Medical/Rx/Vision
Dental	Delta Dental of TN	12/31/2014		Dental
Life	MetLife	12/31/2014		Life/AD&D
Voluntary Products	Met Life USAA AFLAC	12/31/2014		S/T, L/T disability, additional life, dependent coverage, cancer & accident

See Independent Auditors' Report.

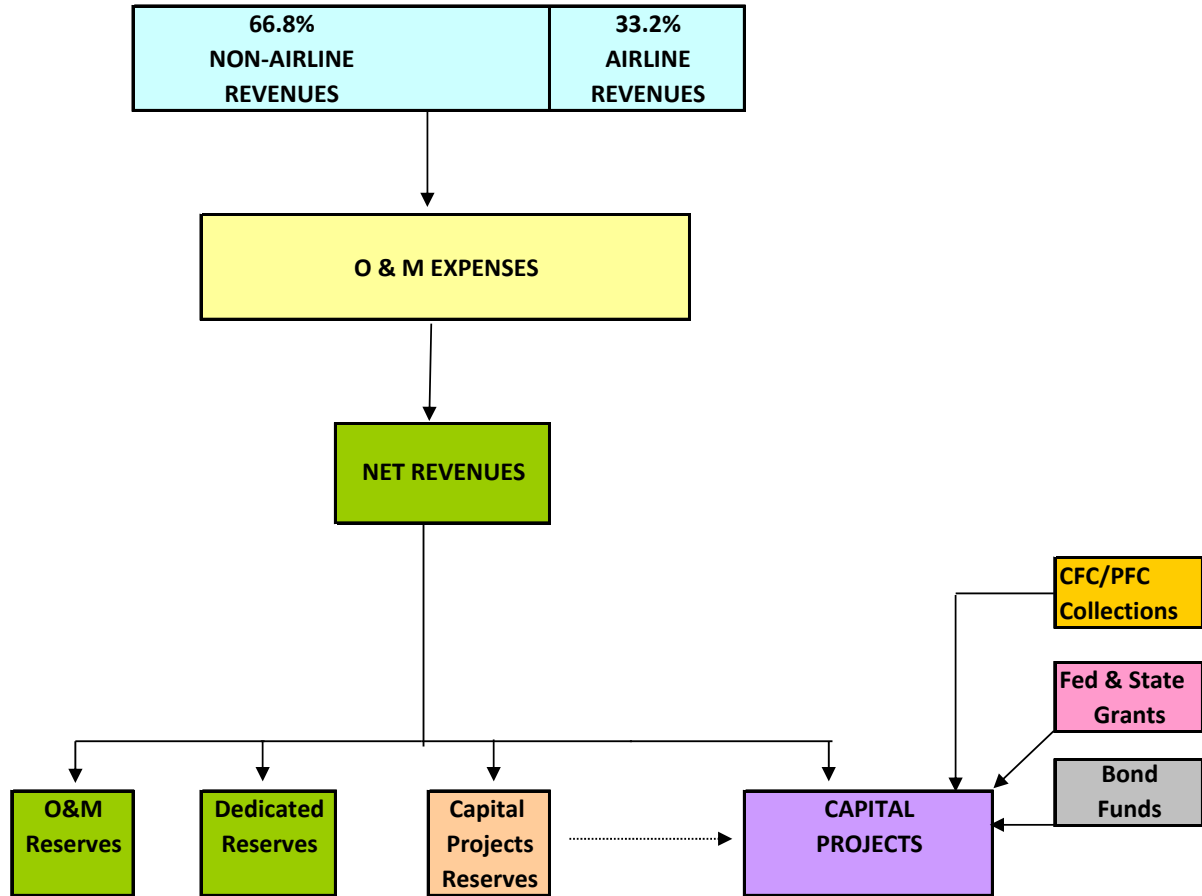
Tri-Cities Airport Authority
TABLE 20:
Capitla Asset Allocation and Funding (Unaudited)
Last Ten Fiscal Years

SOURCE OF FUNDS	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Federal Funds	\$ 17,022,388	\$ 6,831,868	\$ 1,730,504	\$ 2,580,825	\$ 5,170,594	\$ 5,096,784	\$ 3,305,742	\$ 2,154,764	\$ 6,318,155	\$ 1,819,123
State Funds	1,101,654	1,028,050	3,090,754	1,060,080	1,603,422	2,388,604	1,024,520	912,330	1,248,508	747,610
Local Funds	-	-	-	-	-	-	-	-	80,164	105,271
Bond Funds	-	-	-	-	-	-	-	-	1,907,957	1,739,203
Airport Funds	824,771	10,083	495,437	585,931	1,378,032	731,117	115,783	283,444	244,472	942,984
TOTAL SOURCE OF FUNDS	\$ 18,948,813	\$ 7,870,001	\$ 5,316,695	\$ 4,226,836	\$ 8,152,048	\$ 8,216,505	\$ 4,446,045	\$ 3,350,538	\$ 9,799,256	\$ 5,354,191
USE OF FUNDS										
Land	\$ -	\$ 356,355	\$ 1,393,176	\$ 471,083	\$ 1,007,132	\$ 700,492	\$ 719,530	\$ 1,523,645	\$ 1,601,557	\$ -
Construction-In-Progress	15,241,711	6,006,734	(3,722,980)	(68,823)	460,791	6,573,883	2,104,451	(4,528,067)	1,027,243	3,517,343
Runways, Roads, etc.	1,188,840	1,004,302	5,310,193	2,900,891	6,342,221	494,802	87,479	4,506,185	1,542,944	231,568
Parking Lot	-	-	3,500	-	-	34,359	1,245,403	56,150	963,614	1,333,911
Terminal Building	1,725,255	27,746	1,808,904	-	11,359	123,285	63,017	846,523	58,494	140,503
Other Buildings	-	-	109,504	22,703	124,262	-	53,630	586,946	3,788,505	82,417
Equipment and Vehicles	128,486	432,052	414,398	900,982	91,046	235,252	172,535	359,156	786,899	48,449
Master Plans	664,521	42,812	-	-	115,237	54,432	-	-	30,000	-
TOTAL USE OF FUNDS	\$ 18,948,813	\$ 7,870,001	\$ 5,316,695	\$ 4,226,836	\$ 8,152,048	\$ 8,216,505	\$ 4,446,045	\$ 3,350,538	\$ 9,799,256	\$ 5,354,191

Source: Audited Financial Statements

See Independent Auditors' Report.

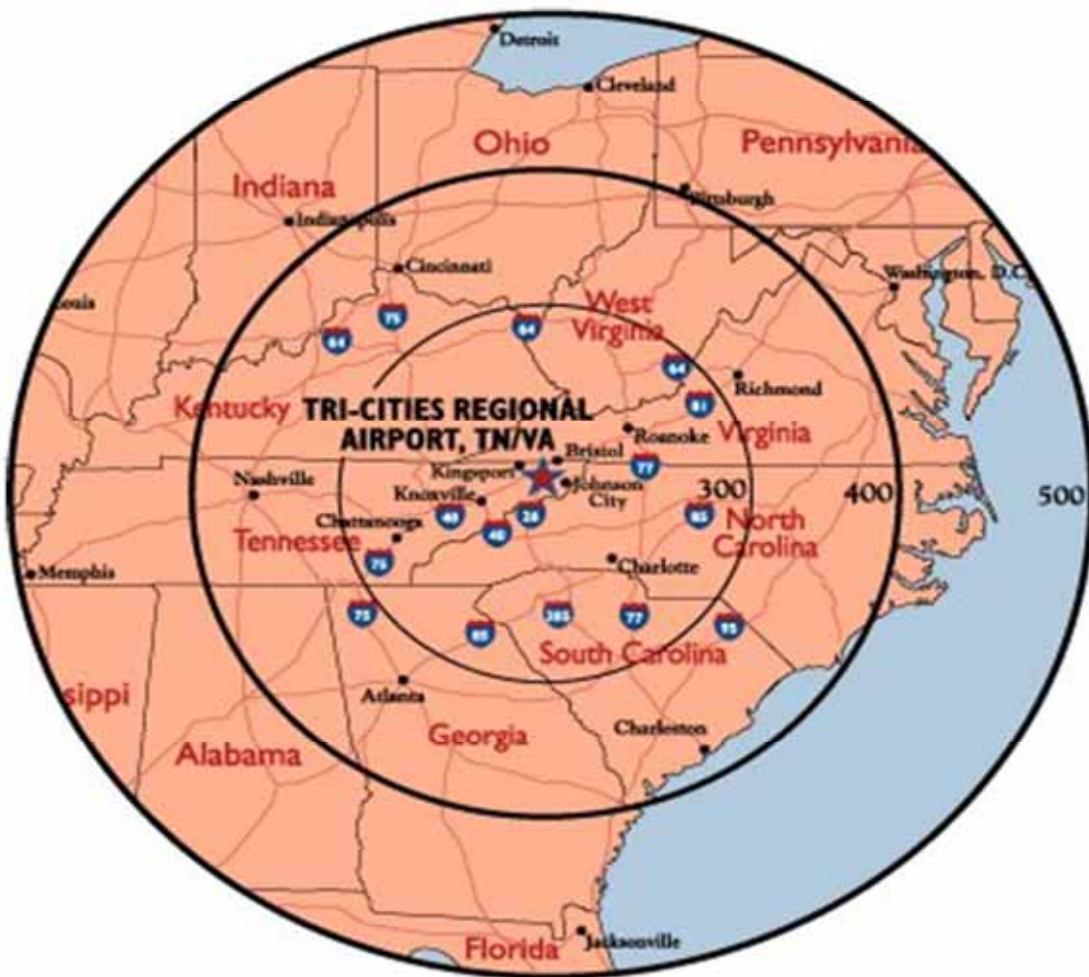
Tri-Cities Airport Authority
TABLE 21:
Flow of Funds (Unaudited)



See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 22:
Location of Airport (Unaudited)

Tri-Cities Regional Airport is centrally located between the cities of Bristol, Tennessee, Bristol, Virginia, Kingsport, Tennessee, and Johnson City, Tennessee. The Airport serves Northeast Tennessee, Southwest Virginia, North Carolina and Kentucky.



See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 23:
Capital Asset Information (Unaudited)
as of June 30, 2014

Land & Facilities	1,250 acres of land and 89 acres in easements	
Elevation:	1,519 feet above mean sea level	
Airport Code:	TRI = FAA or IATA code (ICAO code = KTRI)	
Runways:	ILS Instrument Runway 5/23 - 8,000 feet x 150 feet (Category II) Secondary Runway 9/27 - 4,442 feet x 150 feet	
Terminal:	Airlines - Exclusive/Joint Use	13,193 sf
	Airlines - Common Use	15,278 sf
	Concessions	13,787 sf
	Public/Common	34,681 sf
	Administration	10,316 sf
	Mechanical	15,366 sf
	Other Leaseable	10,911 sf
	Total	<u>113,532 sf</u>
	Number of Passenger Gates	7
	Number of Loading Bridges	1
Apron:	Number of Concessionaires	3
	Number of Rental Car Agencies	3
	Commercial Airlines	100,200 sq yds
	Cargo Airlines	174,000 sq ft
	FBO	57,800 sq yds
Parking Spaces:	Long-Term	923
	Short-Term	185
	Surface Overflow	207
	Metered	21
	Employee	103
	Ground Transportation	157
	Total Parking Spaces	<u>1,596</u>
Cargo:	Air Cargo Logistics Center	13,000 sq ft
International:	U.S. Customs Station No. 2027	
	Foreign Trade Zone No. 204	
Tower:	TRACON	Open: 6:00 am - 11:59 pm 365 days per year
FBO:	Tri-City Aviation, Inc.	85,000 sq ft Hangar
		12,000 sf ft Climate Controlled Hangar
		21 Tie-Downs & 21 Plane Ports
		10,000 sq ft FBO Terminal
Corporate:	5 Hangars	
Fuel Facilities:	15,000 gallon AVGAS 100 LL	
	40,000 gallon Jet A	

See Independent Auditors' Report.

Internal Control and Compliance

- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Independent Auditors' Report on Compliance - A-133
- Schedule of Findings and Questioned Costs - A-133
- Independent Auditors' Report on Compliance - PFC
- Schedule of Findings and Questioned Costs - PFC



TRI-CITIES REGIONAL AIRPORT
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Blountville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tri-Cities Airport Authority (the Authority) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (Internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2014-001).

Tri-Cities Airport Authority
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters

Compliance and Other Matters

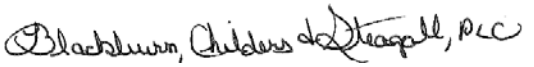
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tri-Cities Airport Authority's Response to the Finding

Tri-Cities Airport Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 3, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Blountville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Tri-Cities Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

Tri-Cities Airport Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance


Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Tri-Cities Airport Authority
Independent Auditors' Report on Compliance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 3, 2014

**TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF PRIOR FISCAL YEAR FINDINGS
June 30, 2014**

Finding Number	Finding Title	Status
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FINANCIAL STATEMENT AUDIT

There were no prior fiscal year findings reported.

MAJOR FEDERAL PROGRAMS AUDIT

There were no prior fiscal year findings reported.

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION I - Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of the Tri-Cities Airport Authority.
2. There was one significant deficiency on the Authority's internal control disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Tri-Cities Airport Authority were disclosed during the audit.
4. There was one significant deficiency noted in internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Tri-Cities Airport Authority expresses an unmodified opinion. All funds paid and property or services transferred were paid in a manner consistent with 49 U.S.C. paragraph 47107(b) and FAA's Policy and Procedures regarding the use of airport revenue.
6. There was one audit finding relative to the major federal award programs required to be reported under Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was the Airport Improvement Program CFDA #20.106.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Tri-Cities Airport Authority was determined to be a low risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year Audit Finding – Significant Deficiency

2014-001 Monitoring the Payments of Retainages

See Section III for detail of significant deficiency

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Current Year Audit Findings – Significant Deficiency

2014-001 Monitoring the Payments of Retainages, Federal Aviation Administration, CFDA No. 20.106, AIP 3-47-0004-62 and AIP 3-47-0004-65

Condition: Two instances were noted where the payments for release of retainages were not made from the contractor's escrow accounts established and funded for that purpose.

Criteria: The purpose of a contractor's escrow account is to set aside funds to fulfill retainage liabilities. Proper accounting for contractor's escrow is for the related assets and liabilities to balance at all times.

Effect: This resulted in the use of airport operational funds and retainages being requested twice from the airport improvement program grants.

Recommendation: We recommend that controls be in place to identify projects that require contractor escrow accounts and to ensure that proper monitoring of retainage payments be implemented to ensure the withdrawal from appropriate funds.

Management's Comments: Both payments cited involved large contracts for which retainage withheld was required to be placed in an escrow account per Tennessee regulations. Additionally, both payments, due to the size of the contracts and the achievement of substantial, approved progress were made as a result of a determination to reduce the overall retainage percentage on the projects.

Once the overall retainage percentage reduction was approved, the respective contractors submitted standard form AIA invoices for the retainage releasable due to the retainage percentage reduction. The fact that the invoices resembled standard construction invoices resulted in an oversight error by Tri-Cities Airport Authority (TCAA) in processing and paying the invoices from the usual operating accounts. All that was required was for TCAA to issue a partial retainage release letter to the banking institution holding the retained funds in escrow for the respective contractor; enabling said contractor to draw from escrow the releasable retainage created.

Since the oversight error resulted in the disbursement of funds from the usual operating accounts designated for payments on construction contracts and projects, TCAA processed drawdowns of the respective AIP grants associated with each project shortly after the payments were released. This effectively compounded the error. Drawdowns against the AIP Grants had already been processed with each prior construction payment made to the contractors as retainage placed in escrow is eligible for drawdown. Therefore, such action resulted in duplicating drawdown amounts for the retainage to be released on the respective AIP Grants.

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Current Year Audit Findings – Significant Deficiency (Continued)

2014-001 Monitoring the Payments of Retainages, Federal Aviation Administration, CFDA No. 20.106, AIP 3-47-0004-62 and AIP 3-47-0004-65 (Continued)

Management's Comments: (Continued)

As of the effective date of issuance of the audit report both duplicate draw situations on the AIP Grants have been resolved. The FAA allows flexibility in the resolution of such errors by allowing offset of overdrawn amounts to be applied against open draws on the specific grant for the project or against any open draws on any other grant issued to the airport.

In order to control the proper retainage of funds on future construction and project invoices, TCAA will immediately enhance review procedures on all such invoices to include reconciliation of retainage amounts to the respective general ledger accounts and, for those projects requiring escrow of retainage funds, a copy of the current respective escrow account statement will be included in the accounts payable invoice package.

In summary, the management of TCAA acknowledges the oversight errors which resulted in the duplicate draws on the AIP Grants associated with the projects. Management believes enhancement of its internal review process and identification of the factors leading to the duplicate drawdowns for retainage will significantly reduce the potential for this error in the future.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Blountville, Tennessee

Report on Compliance for Passenger Facility Charge

We have audited the compliance of the Tri-Cities Airport Authority (the Authority), with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) for its passenger facility charge program for the fiscal year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for passenger facility charges based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Authority's compliance with those requirements.

Opinion on Passenger Facility Charge

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to the passenger facility charge program for the fiscal year ended June 30, 2014.

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Internal Control over Compliance


Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Guide on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a compliance requirement of the Guide will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of the Guide that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 3, 2014

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PASSENGER FACILITY CHARGE PROGRAM
June 30, 2014

I. Summary of Auditors' Results

- i. An unmodified report was issued on the financial statements of the Tri-Cities Airport Authority.
- ii. No instances of noncompliance were disclosed by the audit on the Authority's financial statements.
- iii. An unmodified opinion was issued on compliance for the passenger facility charge program.

II. Financial Statement Findings

There was one audit finding related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

III. Passenger Facility Charge Program Findings

There were no findings related to the passenger facility charge program.